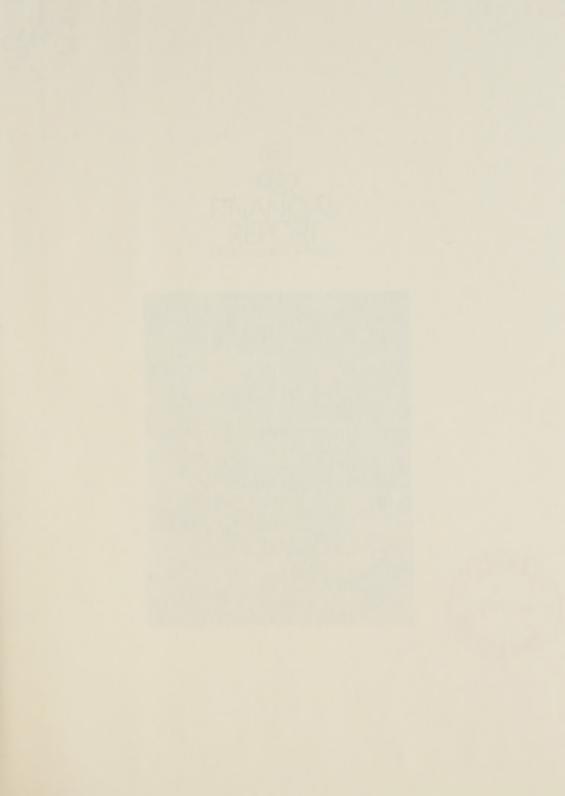


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# Treasurer's Statement

I am pleased to present the 1987 Financial Report of the Province of Ontario. It highlights the major aspects of Ontario's finances and presents summarized financial statements of the Province for the fiscal year ended March 31, 1987.

The Ontario economy exhibited strong growth during 1986 with real growth in Gross Provincial Product of 4.6% and inflation in the 4% range during fiscal year 1986-87. This strong economic climate generated increasing employment opportunities and, as a result, employment rose by 131,000.

Increased business investment led by capital spending on new production facilities in the auto industry, high consumer confidence as reflected in the growth of retail sales, and the strong housing market, played a key role in sustaining the Province's economic growth.

The 1986-87 Public Accounts, which will be submitted to the Ontario Legislature later this year, provide more detailed financial information.

Comments or questions on the contents of this Report are welcomed. You are invited to send them to the Office of the Treasury, Ministry of Treasury and Economics, 2nd Floor, Frost Building North, Queen's Park, Toronto, Ontario, M7A 1Y7, telephone (416) 965-5273.

Robert F. Nixon Treasurer of Ontario

Toronto, August 1987





# The Year in Review

Highlights (\$ millions)	1986-87	1985-86*
Budgetary revenue	29,544	26,240
Budgetary expenditure	32,178	28,854
Non-budgetary contribution	1,286	1,009
Net cash requirements	1,348	1,605
Gross provincial product	194,639	179,937

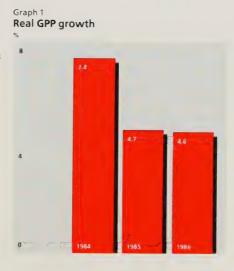
<sup>\*</sup> Before extraordinary adjustments.

## Ontario's economy

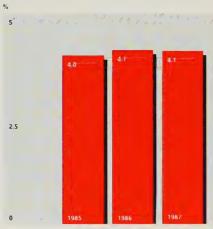
In fiscal 1986-87, Ontario's economy performed well. This strength was due to several factors, including increased business investment, strong residential construction and continued growth in consumer spending. Recent trends in provincial economic growth are set out in the following graphs and commentary.

# Real gross provincial product (GPP) growth

A key indicator of the productive health of the provincial economy is real GPP growth—the percentage change in the value of all goods and services produced in Ontario, adjusted for inflation. After rebounding dramatically from the earlier recession, the growth rate of provincial output stabilized. In the calendar year 1986, GPP grew by 4.6%.



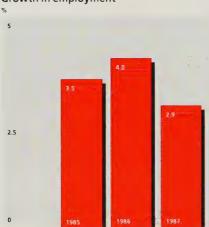
# Graph 2 Inflation rate (CPI)



# Growth in employment

A central element of an economy's health is its ability to generate jobs. The 1986-87 rate of growth of annual average employment, at nearly 3%, continued the positive trend of recent years.

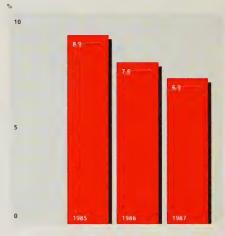
# Graph 3 Growth in employment



# Rate of inflation (CPI)

The rate of inflation as measured by the Consumer Price Index (CPI) has been stable in Ontario in recent years. In fiscal 1986-87 it remained steady at 4.1%.

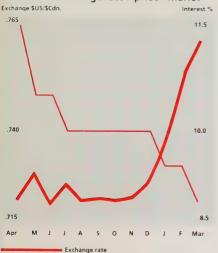
Graph 4
Unemployment rate



# $Unemployment\ rate$

The average unemployment rate continued to decline, dropping to 6.9% in fiscal 1986-87 from 7.6% in the previous year.

Graph 5
Prime rate/exchange rate Apr.86 - Mar.87



- Chartered banks' prime business loan interest rate

# Interest rate and exchange rate

During fiscal 1986-87, the Canadian dollar made a steady recovery from its low point in mid-1986. The prime interest rate continued its downward trend, falling to 8.75%; the lowest level in eight years.

#### Revenue highlights

Budgetary revenues at \$29,544 million were \$1,090 million, or 3.8%, above the 1986 Budget forecast. Personal income tax revenues were \$670 million more than originally budgeted due to adjustments by the federal government for prior years' actual personal income tax assessments. These increases were partly offset by a \$170 million decrease in federal payments under the Established Programs Financing arrangement.

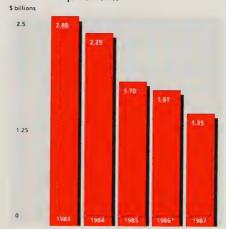
# Expenditure highlights

Budgetary expenditures of \$32,178 million, were \$1,147 million, or 3.7%, above the original Budget plan. School boards received an additional \$330 million to reduce the level of short-term borrowing requirements. Payments under the Ontario Health Insurance Plan for laboratory, physicians' and practitioners' services and payments under the Drug Benefit plan required an additional \$181 million.

# Net cash requirements

Net cash requirements for the year ended March 31, 1987, were \$1,348 million, \$196 million below the Budget estimate. Graph 6 shows net cash requirements for the past five years.

Graph 6
Net cash requirements



\* Before extraordinary adjustments

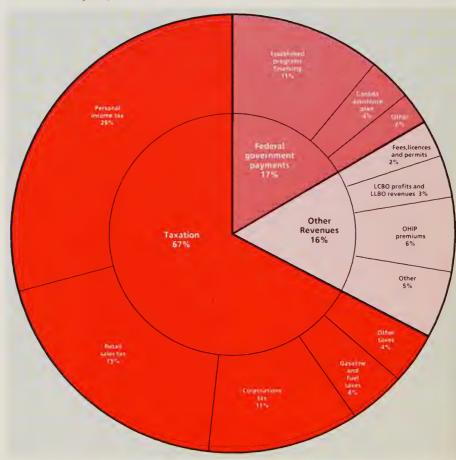
# Budgetary Revenue

The major sources of budgetary revenue of \$29,544 million and their respective percentages are shown in Chart 7 and Table 1.

#### **Taxation**

Personal income tax was \$670 million above the 1986 Budget estimate. In-year adjustments by the federal government for prior years' actual assessments accounted for \$152 million for the 1984 tax year, and \$301 million for the 1985 tax year. The federal government also made an upward revision of \$217 million in its estimated assessments for Ontario for the 1986 tax year. These increases resulted in a \$170 million decrease in federal payments under the Established Programs Financing arrangement.

Chart 7
Sources of budgetary revenue



Corporations income tax revenues were \$180 million higher than the Budget estimate, due mainly to a healthy corporate profit performance and a continuing decrease in the carry-over of prior-year losses.

Retail Sales Tax revenue exceeded the Budget estimate by \$153 million, reflecting stronger than expected growth in consumer spending on taxable goods and services. Consumer spending was aided by lower interest rates.

# Payments from the Government of Canada

Total payments from the federal government of \$4,870 million were \$174 million less than the Budget estimate. Payments under Established Programs Financing were \$170 million below the Budget estimate, primarily as a result of upward adjustments to the personal income

tax. Federal payments under the Canada Assistance Plan increased by \$34 million as a result of a higher level of social assistance expenditures by the Province.

#### Health insurance premiums

Premiums collected under the Ontario Health Insurance Plan (OHIP) were \$1,669 million, \$16 million more than the Budget estimate. A broad program of premium assistance is in place for senior citizens, social assistance recipients and others requiring financial assistance, under which an estimated \$770 million in premium revenue was foregone.

# Payments from the Ontario Lottery Corporation

The \$119 million gain in lottery profits is the result of strong growth in Lotto 6/49 sales.

Performance of major revenues 1986-87					7	able 1
(\$ millions)	Actua	al	Budg	get	Vari	ance
Taxation: Personal income tax Retail sales tax Corporations tax Other	8,618 5,604 3,205 2,436	9,863	7,948 5,451 3,025 2,323	18,747	+670 +153 +180 +113	+1,116
Government of Canada: Established programs financing Other	3,220 1,650	4,870	3,390 1,654	5,044	-170 4	-174
OHIP premiums LCBO profits and LLBO revenues Ontario Lottery Corporation Interest on investments, etc. Other	1,669 950 465 328 1,399	4,811	1,653 1,013 346 273 1,378	4,663	+16 -63 +119 +55 +21	+148
Total	2	29,544		28,454		+1,090

# Budgetary Expenditure and its Major Components

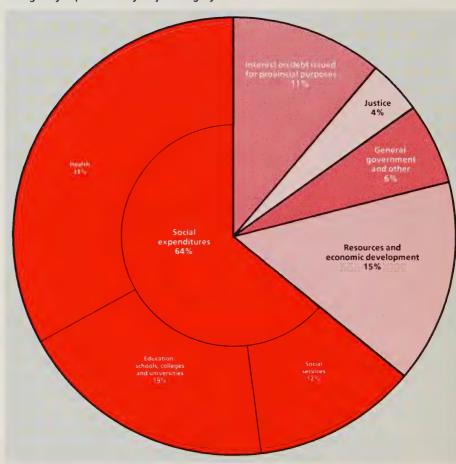
Total budgetary expenditure was \$32,178.million, \$1,147 million over the Budget estimate. Chart 8 shows expenditure by major category.

## Transfer payments

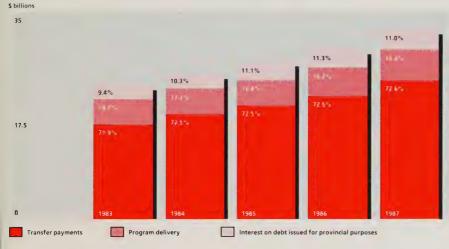
Transfer payments, which include grants, subsidies and assistance to persons and

other government bodies, represented 72.6% of budgetary expenditure and amounted to \$23,362 million. Graph 9 illustrates the five year trend of transfer payments in relation to program delivery costs and interest on debt issued for provincial purposes.

Chart 8 **Budgetary expenditure by major category** 



Graph 9
Major components as a per cent of budgetary expenditures



- Health expenditure of \$9,922 million included:
- \$5,187 million (52%) transferred to hospitals and related facilities for operating and capital purposes;
- \$3,177 million (32%) as payments to physicians and other health practitioners for services and health care provided under the Ontario Health Insurance Plan (OHIP);
- \$1,120 million (11%) for extended and special care facilities, ambulance and emergency health services;

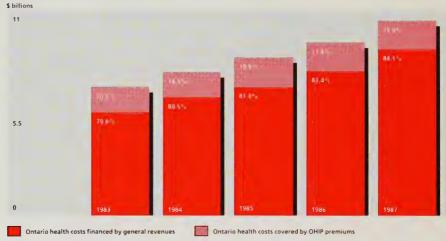
 \$414 million (4%) in free prescription drugs provided to pensioners and social assistance recipients.

In addition, those requiring assistance received OHIP premium assistance amounting to an estimated \$770 million.

As Graph 10 indicates, the Province continues to phase down its reliance on OHIP premiums to help fund health care. In 1986-87, OHIP premiums represented 15.9% of health expenditures, down from 20.2% in 1982-83.

Graph 10

OHIP premiums and health expenditures



## · Educational expenditure was

\$6,870 million. The Province has carried out its responsibility for education by supporting local school boards for primary and secondary schools, as well as by funding universities, colleges and other post-secondary institutions. Major components of expenditure were:

- \$3,787 million (55%) in transfer payments to the local school boards in support of their operating and capital financing needs. This includes an additional payment of \$330 million for General Legislative Grants to reduce the level of short-term borrowing needs;
- \$2,078 million (30%) to the postsecondary educational sector for operating and capital costs;
- \$447 million (7%), paid by the Ministry of Treasury and Economics, as the matching

employer's share of teachers' contributions for the Teachers' Superannuation and Adjustment Funds, and for supplementing pensions under these plans.

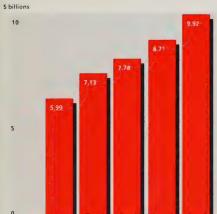
- Social services expenditures totalled \$3,577 million. The services are provided mainly through the facilities of the Ministry of Community and Social Services and by their direct financial support to institutions, municipalities and various social agencies. Major expenditures were:
- \$2,034 million (57%) for income maintenance to individuals requiring assistance on a long-term basis and subsidies to municipalities for their temporary assistance programs;

10

Graph 11a

Transfer payments by functional objective -

Transfer payments by functional objective Health

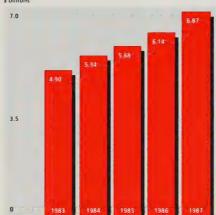


- \$666 million (19%) towards the support of children's programs such as children's aid societies, day nurseries, mental health facilities and juvenile correctional programs;
- \$495 million (14%) paid by the Ministry of Revenue, in the form of property tax grants, sales tax grants and guaranteed annual income system, all of which benefit Ontario senior citizens.
- Other transfer payments to local governments, designed to assist general municipal programs totalled \$2,273 million. Major components were:
- unconditional grants to municipalities of \$798 million;
- subsidies of \$578 million to municipalities for road programs;
- capital and operating subsidies of \$296 million for municipal transportation systems.

Graph 11b

# Transfer payments by functional objective - Education

\$ billions

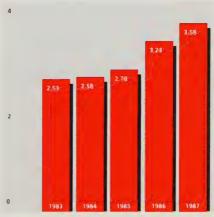


Graphs 11a, 11b and 11c show the five year trend of transfer payments by functional objective for health, education and social services.

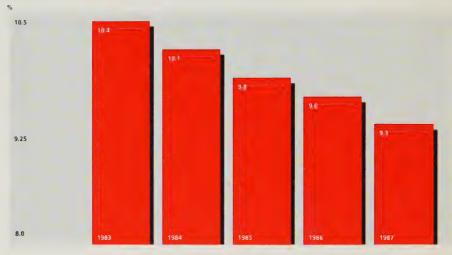
Graph 11c

# Transfer payments by functional objective - Social services

\$ billions



Graph 12
Salaries and benefits as a per cent of budgetary expenditure



# Program delivery

Public servants' salaries and benefits, which make up the major share of program delivery, totalled \$2,983 million, or 9.3% of the budgetary expenditure, down from 9.8% in 1984-85. Graph 12 shows the five year trend of salaries and benefits.

# Interest on debt issued for provincial purposes

Interest costs associated with the debt for provincial purposes were \$3,539 million, 11.0% of the budgetary expenditure, down from 11.3% in the previous year.

# Capital investments

The capital investments of the Province include direct capital projects such as provincial highways and the Province's share of capital spending undertaken by municipalities, hospitals, universities, school boards, other provincial organizations and joint projects with private industry.

In fiscal 1986-87, these investments amounted to \$2,473 million up from \$2,215 million a year before.

Non-Budgetary Transactions

Non-budgetary transactions comprise the administration of lending, investment, pension and related benefit funds and special purpose accounts. These generated net inflows of \$1,286 million to the Consolidated Revenue Fund. Table 2 shows the non-budgetary transactions by category.

#### Pension and related benefit funds

Pension inflows represent employer and employee contributions and interest earnings of funds held mainly for government employees, members of the Legislature, provincial judges and the Superannuation Adjustment Fund. The net inflows, consisting of the deposits and interest earnings less payments, from these funds totalled \$760 million.

# Lending and investment

Loans and advances to, and investments in, various Crown agencies and local

governments amounted to \$92 million. Repayments of loans and advances were \$405 million, reflecting the impact of the divestment strategy undertaken by the Government in the 1985 Budget.

## Special purpose accounts

The net payments into the Consolidated Revenue Fund of \$213 million are composed mainly of deposits of the Province of Ontario Savings Office and a variety of special purpose accounts. The 21 branches of the Savings Office in Ontario accept interest bearing deposits from the general public and provide chequing privileges. All deposits are fully guaranteed by the Province. The funds, surplus to the day-to-day operating needs, are deposited with the Treasurer of Ontario. The balance on deposit at year end was \$912 million, up from \$717 million the previous year.

Non-budgetary transactions		Table 2
(\$ millions)	1986-87	1985-86
Pension and related benefit funds - net payments into funds	760	689
Loans, advances and investments in various Crown agencies and local governments - net repayments	313	248
Special purpose accounts - net increase in funds held	213	72
Non-budgetary contribution	1,286	1,009

# Consolidated Debt of the Ontario Public Sector

Debt includes obligations that have a specified term to maturity and are secured by debt instruments including bonds, debentures, notes and treasury bills.

Ontario's outstanding debt of \$35,707 million comprised \$27,921 million for its own purposes and \$7,786 million for Ontario Hydro. In addition, the Province's statement of financial position shows other liabilities, mainly to public sector pension plans.

As shown on Chart 13, the Province has borrowed mainly from the Canada Pension Plan (CPP) and the Teachers' Superannuation Fund (TSF). The funds borrowed from the CPP represent Ontario's share of the Plan's investable surplus. The CPP funds are made available to the Province in the same proportion as contributions to the Plan by Ontario's residents. In 1986-87, the borrowing from CPP was reduced to \$232 million from the projected level of \$600 million. In addition, \$333 million of CPP debt was repaid. As a result, Ontario's own purpose CPP debt declined by \$101 million.

The Teachers' Superannuation
Commission, which administers the pension
plan of the teachers in Ontario, invests its
surplus funds in provincial securities. In
1986-87, the Province borrowed \$1,310
million from the TSF. The Province has no
foreign currency debt outstanding on its own
behalf except for \$7.1 million in West
German currency, which will be repaid in
the 1987-88 fiscal year.

The Province also borrows in the United States and from the Canada Pension Plan on behalf of Ontario Hydro. In these cases the proceeds are advanced to Ontario Hydro and are secured by bonds bearing like terms and conditions to the securities issued by

Ontario. Of the \$7,786 million outstanding at March 31, 1987, \$6,667 million was borrowed in the United States and \$1,119 million represented CPP funds passed to Ontario Hydro.

In addition, securities issued by Ontario Hydro in other markets are guaranteed by the Province, and this contingent liability amounted to \$16,509 million at year end.

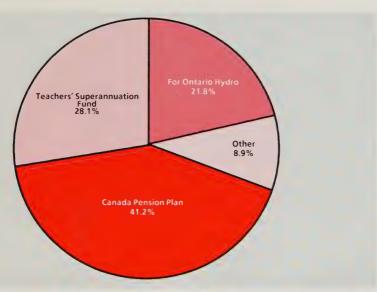
#### Public sector debt

A broad measure of debt in Ontario is presented in Table 3 and includes:

- · Ontario's debt for provincial purposes;
- Ontario's debt issued on behalf of Ontario Hydro;
- obligations issued by Ontario Hydro and guaranteed by the Province;
- debt incurred by provincial agencies and by the local government, university and hospital sectors.

The consolidated debt approach highlights the effects of Ontario's policy of centralized public sector financing through which the Province's own financial strength has been used to fund the local government sector and its agencies. The Province has also carefully controlled the use of the provincial guarantee, restricting it almost exclusively to borrowings by Ontario Hydro.

Chart 13
Major components of debt



Consolidated debt of the Ont		Table 3		
March 31 (\$millions)	Interim 1987	%	Actual 1986	%
Debt incurred for  — Provincial purposes  — Ontario Hydro Guaranteed Debt*  — Ontario Hydro	27,921 7,786 16,509	49.3 13.7 29.1	26,695 8,189 15,093	49.1 15.0 27.7
Sub-Total	52,216	92.1	49,977	91.8
Other Public Sector Debt Provincial Agencies Local Government Sector** University and Hospital Sector	1,430 2,889 137	2.5 5.1 0.3	1,462 2,842 143	2.7 5.2 0.3
Sub-Total	4,456	7.9	4,447	8.2
Total	56,672	100.0	54,424	100.0

<sup>\*</sup> The guaranteed debt excludes bank loans and is net of debt accumulated by Ontario Hydro for early retirement, which in 1987 was \$994 million (1986 \$917 million).

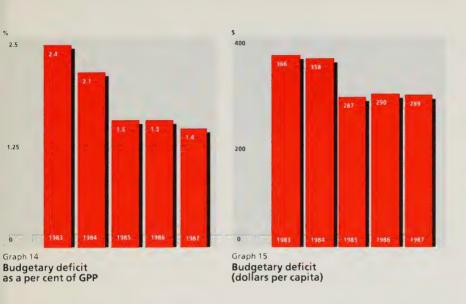
<sup>\*\*</sup> The local government sector debt excludes Sinking Funds and Own Holdings, which in 1987 totalled \$965 million (1986 \$893 million).

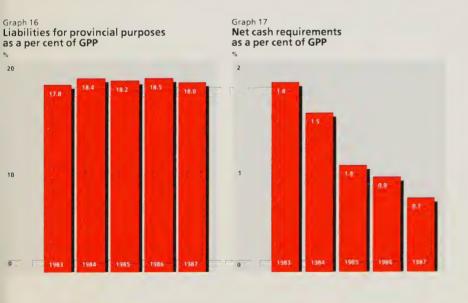
# Selected Financial and Economic Statistics

March 31 (\$ millions)	1987	1986*	1985	1984	1983
Budgetary transactions					
Revenue	29,544	26,240	23,893	21,412	19,367
Expenditure	32,178	28,854	26,452	<u>24,565</u>	22,556
Budgetary deficit	2,634	2,614	2,559	3,153	3,189
Non-budgetary transactions					
Repayments and deposits	1,679	1,452	1,303	1,235	1,066
Payments	393_	443_	446	371	355
Non-budgetary contribution	1,286	1,009	857	864	711
Net cash requirements	1,348	1,605	1,702	2,289	2,478
Provincial debt transactions (net)	1,194	2,102	2,090	2,860	2,051
Ontario Hydro debt transactions (net)	(403)	(17)	719	429	485
Liabilities Debt incurred for					
- Provincial purposes	27,921	26,695	24,593	22,503	19,643
- Ontario Hydro	7,786	8,189	8,206	7,487	7,058
Other	7,182	6,539	5,662	5,011	4,333
Total liabilities	42,889	41,423	38,461	35,001	31,034
Gross provincial product at market prices <sup>1</sup>	194,639	179,937	166,317	149,477	134,987
Gross provincial product in constant (1981) prices <sup>1</sup>	153,723	147,007	140,470	130,776	123,955
Personal income (Ontario)1	170,151	157,806	145,916	131,906	122,421
Personal income (Ontario) per capita <sup>1</sup> (June 1 population) (in dollars)	18,669	17,515	16,393	14,993	14,068
Net cash requirements/GPP(%)	0.7	0.9	1.0	1.5	1.8
Debt incurred for provincial purposes/GPP (%)	14.3	14.8	14.8	15.1	14.6
Consolidated debt of the public sector/GPP (%)	29.1	30.2	30.5	31.6	30.5
Contingent liabilities	17,603	15,963	14,220	12,711	11,122

<sup>&</sup>lt;sup>1</sup> Gross provincial product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

\* Before extraordinary adjustments









# **1987 Financial Statements**

21	Summary of significant accounting policies
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# The accounting basis

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province, under which the financial transactions of government ministries are set out as Consolidated Revenue Fund cash inflows and outflows, best accommodate reporting to the Legislature.

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended. Cash inflows, however, are closed at March 31 for cash received or in transit.

Loans and advances made to Crown corporations, boards and commissions are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of the underlying security has diminished, and when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of \$1.

The accounting of the Province's transactions is recorded under three categories:

#### **Budgetary transactions**

Budgetary transactions are the revenue and expenditure activities of the Government.

#### Revenue

This includes revenue raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and shared-cost programs, and income from investments.

# Expenditures

Expenditures on government programs include payments for goods and services, transfer payments to individuals, local governments and institutions, subsidies and grants, salaries, interest on debt issued for provincial purposes and the acquisition and creation of fixed assets. Expenditures on fixed assets are expensed as budgetary items in the year of acquisition since they are not considered to differ from any other service to the public. Discount, premium and commission expenses related to debt issues are treated as current year budgetary transactions.

# Non-budgetary transactions

Non-budgetary transactions are the lending, investment and special account administration activities of the Government, including loans, advances and investments, pension and related benefit funds and special purpose accounts. These transactions affect only asset and liability accounts

## Loans, advances and investments

This category includes Ontario's lending and investment activity in various Crown corporations, agencies and local governments.

#### Pension and related benefit funds

Pension and related benefit funds consist of all employee and employer contributions and interest earnings of the funds which are mainly for government employees, members of the Legislature, provincial judges, the Superannuation Adjustment Fund, less payments made from these funds.

Summary of Significant Accounting Policies

#### Special purpose accounts

Special purpose accounts arise from provincial administration of special accounts, generally established by legislation, such as the Motor Vehicle Accident Claims Fund and deposits with the Province of Ontario Savings Office.

# Financing transactions

Financing transactions show the issuance and repayment of securities.

#### Debt transactions

Provincial purpose transactions are the borrowing and repayment activities for the Province's own purposes.

# Financial assets, accumulated deficit and liabilities

#### Financial assets

Advances to Ontario Hydro represent the funds advanced to the Corporation and are stated in Canadian dollars using the yearend rate of exchange.

All other financial assets are claims by the Consolidated Revenue Fund on other parties and have been created by cash transactions.

## Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and financial assets; it represents the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in the accumulated deficit is the amount by which budgetary revenues are greater or less than budgetary expenditures.

#### Liabilities

Liabilities are claims by other parties on the Consolidated Revenue Fund.

Debt incurred for provincial purposes comprises debentures, notes and treasury bills which are recorded at the face value of debt instrument, or in the case of the foreign currency denominated debt, at the Canadian dollar equivalent. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include pension and related benefit funds, deposits with the Province of Ontario Savings Office and other special purpose accounts.

#### Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown.

# Foreign currency translation

Proceeds and retirements of loans denominated in foreign currencies are recorded as financing transactions at the Canadian dollar equivalent, using the rate of exchange prevailing on the day of the transaction. Debt payable and contingent liabilities are translated to Canadian dollars at year-end rates of exchange.

In the case of outstanding debt issued on behalf of Ontario Hydro, the offsetting advances to Ontario Hydro are similarly translated at year-end rates of exchange, so there is no exchange gain or loss to be recorded. Exchange gains or losses related to outstanding debt incurred for provincial purposes are recorded as budgetary transactions.

# Statement of Consolidated Revenue Fund Transactions

Province of Ontario					
For the year ended March 31, 1987 (\$ millions)	Original Budget	Actual 1987	Actual 1986		
Budgetary transactions					
Revenue	28,454	29,544	26,240		
Expenditure	31,031	<u>32,178</u>	<u>28,854</u>		
Budgetary deficit	2,577	2,634	2,614		
Non-budgetary transactions (net)					
Pension and related benefit funds	773	760	689		
Loans, advances and investments	193	313	248		
Special purpose accounts	67	<u>213</u>	72		
Total non-budgetary contribution	1,033	1,286	1,009		
Net cash requirements	1,544	1,348	1,605		
Financing					
Debt transactions Proceeds of loans net of retirements	1,506	1,194	2,102		
(Increase) decrease in cash and temporary investments (note 13)	38	154	8		
Total financing	<u>1,544</u>	<u>1,348</u>	<u>2,110</u>		
Net cash requirements after extraordinary					
adjustments (note 12)	1,544	1,348	2,110		

# Statement of Budgetary Revenue

Province of Ontario				
For the year ended March 31, 1987 (\$ millions)	Original Budget	Actual 1987	Actual 1986	
Taxation Taxation				
Personal income tax	7,948	8,618	7,249	
Retail sales tax	5,451	5,604	5,025	
Corporations tax	3,025	3,205	2,575	
Gasoline tax	1,017	989	977	
Tobacco tax	590	611	603	
Land transfer tax	270	353	205	
Fuel tax	265	266	242	
Mining profits tax	55	121	55	
Race tracks tax	67	71	64	
Public utilities income tax	45	14	56	
Succession duty		5	6	
Other	13	6	5	
	18,746	19,863	17,062	
Other revenue				
Ontario Health Insurance Plan premiums	1,653	1,669	1,622	
Profits from Crown corporations and boards				
Liquor Control Board of Ontario	695	629	638	
Ontario Lottery Corporation	346	465	317	
Vehicle registration fees	430	438	356	
Interest on investments, loans and advances	273	328	455	
Liquor Licence Board of Ontario revenues	318	321	275	
Other fees and licences	283	257	252	
Royalties	170	167	164	
Utility service charges	130	120	126	
Sales and rentals	100	99	73	
Fines and penalties	95	95	8′	
Other	170	223	131	
out.	4,663	4,811	4,496	
overnment of Canada	,			
Established Programs Financing				
Cash Contribution	2,981	2,813	2,752	
Extended Health Care Services	409	407	388	
Canada Assistance Plan	1,090	1,123	1,048	
National Training Agreement	171	157	171	
Other	394	370	329	
	5,045	4,870	4,682	
Total budgetary revenue	28,454	29,544	26,240	

# Statement of Budgetary Expenditure

Province of Onta	rio		
For the year ended March 31, 1987	Original	Actual	Actual
(\$ millions) * " " " " " " " " " " " " " " " " " "	Budget	1987	1986
Ministry			
Agriculture and Food	434	465	387
Attorney General	313	327	286
Office Responsible for Women's Issues	10	8	10
Office Responsible for Native Affairs	2	4	1
Citizenship and Culture	227	274	215
Colleges and Universities	2,128	2,254	2,063
Community and Social Services	3,133	3,285	2,872
Consumer and Commercial Relations	107	113	100
Correctional Services	331	330	283
Education	3,585	3,937	3,381
Energy	45	43	83
Environment	345	340	317
Financial Institutions	27	23	25
Government Services	457	461	433
Office Responsible for Disabled Persons	2	5	1
Office Responsible for Senior Citizens Affairs	4	3	2
Health	10,021	10,480	9,251
Housing	350	296	234
Industry, Trade and Technology	167	197	82
Intergovernmental Affairs	6	7	8
Labour	92	97	77
Legislative and Executive Offices	10	9	8
Management Board of Cabinet	26	25	20
Municipal Affairs	875	891	848
Natural Resources	477	529	444
Northern Development and Mines	201	220	175
Revenue	718	703	684
Skills Development	459	405	392
Solicitor General	378	368	340
Tourism and Recreation	158	167	160
Transportation and Communications	1,767	1,768	1,602
Treasury and Economics	619	520	735
Interest on debt issued for provincial purposes	3,575	3,539	3,250
Other	82	85	85
Estimated year-end savings (note 11)	(100)		
Total budgetary expenditure (note 10)	31,031	32,178	28,854

# Statement of Non-Budgetary Transactions

Province of Ontar	io		
For the year ended March 31, 1987	Original	Actual	Actual
(\$ millions)	Budget	1987	1986
Pension and related benefit funds			
DEPOSITS TO:			
Public Service Superannuation Fund	725	714	641
Superannuation Adjustment Fund	320	313	283
Other	23	22	22
	1,068	1,049	946
PAYMENTS FROM:			
Public Service Superannuation Fund	181	181	164
Superannuation Adjustment Fund	104	100	82
Other	10	8	11
	295	289	257
	200	200	201
Net deposits to pension and related benefit funds	773	760	689
	113	700	009
Loans, advances and investments			
REPAYMENTS BY:			
Corporations, boards and commissions			
Ontario Mortgage Corporation	177	177	86
Development Corporations	34	64	57
Crop Insurance Commission of Ontario			13
Ontario Education Capital Aid Corporation			79
Ontario Universities Capital Aid Corporation Other	6	8	26 20
Local governments	90	8 96	74
Water treatment and waste control facilities	30	50 52	46
Other loans and investments	10	8	23
Other loans and myestments			
	347	405	424
PAYMENTS TO:			
Corporations, boards and commissions			
Development Corporations	106	47	77
Ontario Energy Corporation			16
Other	1	5	13
Local governments	29	23	36
Water treatment and waste control facilities			34
	154	_92	176
Net repayments of loans, advances			
and investments	193	313	248

# Statement of Non-Budgetary Transactions

Province of Ontario				
For the year ended March 31, 1987 (\$ millions)	Original	Actual	Actual	
	Budget	1987	1986	
Special purpose accounts				
DEPOSITS TO:				
Province of Ontario Savings Office	38	195	62	
Motor Vehicle Accident Claims Fund	11	13	10	
Other	30	<u>17</u>	_10	
	<u>79</u>	225	_82	
PAYMENTS FROM:				
Motor Vehicle Accident Claims Fund	9	6	6	
Other	3	6	4	
	12	_12	10	
Net deposits to special purpose accounts	67	213	72	
Total non-budgetary contribution (net)	1,033	1,286	1,009	

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Province of Ontario				
For the year ended March 31, 1987	Original	Actual	Actual	
(\$ millions)	Budget	1987	1986	
Proceeds of loans				
Canada Pension Plan Investment Fund	600	232	1,214	
Teachers' Superannuation Fund	1,255	<u>1,310</u>	1,235	
Total proceeds of loans	1,855	1,542	2,449	
Retirements of loans				
Canada Pension Plan Investment Fund	343	333	20	
Other debentures and notes	6	<u>15</u>	327	
Total retirements of loans	349	348	347	
Debt transactions (net)	1,506	1,194	2,102	

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Statement of Debt Transactions

# Statement of Financial Position

Province of Ontario			
As at March 31, 1987 (\$ millions)	1987	1986	
Financial assets			
Cash and temporary investments (note 1)	1,978	2,118	
Loans to local governments	516	588	
Advances to corporations, boards and commissions (note 2)	513	715	
Investments in water treatment and waste control facilities (at cost less recoveries) (note 3)	475	510	
Other loans (note 4)	92	54	
	3,574	3,985	
Advances to Ontario Hydro, secured by bonds (note 5)	7,786	8,189	
Total financial assets	11,360	12,174	
Accumulated deficit	31,529	28,919	
	42,889	41,093	
Liabilities			
Debt incurred for provincial purposes (note 6)	27,921	26,695	
Pension and related benefit funds (note 7)	6,157	5,397	
Deposits with the Province of Ontario Savings Office	912	717	
Other special purpose accounts	113	95	
Total liabilities for provincial purposes	35,103	32,904	
Debt incurred for Ontario Hydro (note 6)	7,786	8,189	
	42,889	41,093	
Contingent liabilities (note 8)	<u>17,603</u>	15,963	

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1987 financial statements of the Province of Ontario, including the notes and the Summary of Significant Accounting Policies are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 29, 1987.

B.A. SMITH, Deputy Treasurer of Ontario and Deputy Minister of Economics

A.W. NETHERY, Director, Financial Information and Accounting Policy Branch

### Notes to the Financial Statements

(all figures in millions of dollars)

### 1. Cash and temporary investments

Temporary investments are mainly marketable short-term securities issued by Canadian chartered banks, and by provincial and federal governments and are recorded at cost.

### 2. Advances to corporations, boards and commissions

	1987	1986
Development Corporations	\$268	\$285
Ontario Mortgage Corporation (note 13)	146	323
Other	99	_107
	<u>\$513</u>	<u>\$715</u>

The Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has advanced funding for the Corporations' lending programs. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to \$16 million in 1987 (1986 \$15 million). Advances to the Corporations are reduced by their loan forgiveness and write-offs, amounting to \$16 million in 1987 (1986 \$9 million).

The Ontario Mortgage Corporation advances of \$146 million as at March 31, 1987 represent the market value of mortgages held by the Corporation.

### 3. Investments in water treatment and waste control facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering \$407 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to \$36 million at March 31, 1987 (1986 \$45 million), was applied as a reduction of the investment account.

### 4. Other loans

Included in other loans are Ministry of Health capital construction loans to public hospitals amounting to \$35 million (1986 \$42 million) as well as mortgages of \$36 million assumed from the Ontario Land Corporation.

### 5. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1987, the bonds consist of U.S. \$5,109 million (1986 U.S. \$5,145 million), and Canadian \$1,119 million (1986 Canadian \$1,000 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at \$6,667 million (1986 \$7,189 million), the Canadian dollar equivalent using the exchange rate in effect on that date. Transactions during the year are as follows:

	<u>1987</u>	1986
Proceeds of loans	\$ 119	\$
Retirements of loans	_(50)	(175)
Net proceeds/retirements	69	(175)
Foreign exchange - (gain)/loss	(472)	<u> 158</u>
Net (decrease) increase in debt incurred for Ontario Hydro purposes	<u>(403)</u>	_(17)
Related advances, interest and recoveries		
Advances to Ontario Hydro	119	
Interest	897	916
Recovery of interest and loan retirements	(947)	(1,091)
Net advances	69	(175)
Foreign exchange - (gain)/loss	(472)	_158_
Net related advances, interest, foreign exchange - (gain)/loss and recoveries	<u>\$ (403)</u>	<u>\$ (17)</u>

### 6. Debt

Debentures, notes and treasury bills for provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of repayment/maturity in the following tables.

## For Provincial purposes

	1987		1986	
Years of repayment/ maturity March 31	We a ir	eighted verage nterest cate %	1900	Weighted average interest rate %
1987 1988 1989 1990 1991 1992	\$ 1,427 920 454 486 _508		\$ 998 775 919 453 484	
1-5 years 6-10 years 11-15 years 16-20 years 21-25 years 26-30 years 31-35 years	3,795 5,047 6,780 10,097 2,093 73 36 \$27,921	7.72 8.28 10.54 12.22 12.76 9.97 10.24 10.52	3,629 $4,478$ $6,646$ $9,733$ $2,086$ $72$ $51$ $$26,695$	8.18 8.02 9.81 12.53 13.21 9.92 10.18 10.55
Payable to:		<u>1987</u>		<u>1986</u>
Minister of Finance Canada Pension I Other Feachers' Superann The Ontario Munici Retirement Fund Public Investors	Plan Investment Fund uation Fund pal Employees	\$14,727 351 10,029 1,293 		\$14,827 330 8,719 1,293 1,526 \$26,695

		For Ont	ario Hydr	0	198	36
Years of repayment/ maturity March 31	Canadian	United States	Total	Weighted average interest rate %	Total	Weighted average interest rate %
1988 1989 1990 1991 1992	\$	\$ 261 261 57 514	\$ 261 261 57 514		\$ 279 279 62	
1-5 years 6-10 years 11-15 years 16-20 years 21-25 years 26-30 years	1,000 119 \$1,119	1,093 617 611 1,560 2,416 370 \$6,667	1,093 617 1,611 1,679 2,416 370 \$7,786	12.56 12.95 11.80 8.85 11.07 12.78 11.18	620 1,171 1,127 1,920 2,265 1,086 \$8,189	9.88 14.42 9.71 10.76 9.17 14.78
Payable to:			19	<u>87</u>		1986
Minister of Fina Canada Pens Fund Public Investors	ion Plan Inves		\$1,11 			\$1,000 _7,189

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is \$472 million (loss of \$158 million in 1986).

\$7,786

\$8,189

As explained in Note 5, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

### 7. Pension and related benefit funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related benefit funds and accounts. The amounts recorded by the Province are the sole assets of these plans.

	<u>1987</u>	1986
Public Service Superannuation Fund	\$4,563	\$4,030
Superannuation Adjustment Fund	1,514	1,300
Legislative Assembly Retirement Allowances		
Account	36	32
Provincial Judges Benefits Fund	37	31
Other	7	4
	\$6,157	\$5,397

The latest actuarial report of the Public Service Superannuation Fund as at December 31, 1985, showed a surplus of \$109.9 million.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1986, showed a deficit of \$1 million. The Province has made this payment as at March 31, 1987.

### 8. Contingent liabilities

	1987	1986
Obligations guaranteed by the Province:		
Debentures, bonds and notes		
Ontario Hydro	\$16,509	\$15,093
Bank loans guaranteed		
Corporations and individuals through	000	010
various government programs	383	319
Other guarantees		
Corporations	711	551
	<u>\$17,603</u>	\$15,963

Claims against the Crown:

There are claims outstanding against the Crown of which six are for amounts over \$50 million each, arising from legal action either in progress or threatened in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, settlements resulting therefrom will be recorded as budgetary expenditure when paid.

### 9. Teachers' Superannuation Fund

Through budgetary expenditure, the Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund, which is administered by the Teachers' Superannuation Commission. The Province is also committed to paying any deficiency in the Fund.

The latest actuarial report as at December 31, 1984 showed a surplus of \$693 million.

### 10. Budgetary expenditure by classification, net of recoveries

	<u>1987</u>	1986*
Salaries and wages	\$ 2,580	\$ 2,378
Employee benefits	403	386
Transportation and communication	200	214
Services	1,016	790
Supplies and equipment	653	505
Acquisition/construction of physical assets	273	307
Transfer payments	23,362	20,927
Interest on debt issued for provincial purposes	3,539	3,250
Other transactions	<u>152</u>	97
Total budgetary expenditure	<u>\$32,178</u>	<u>\$28,854</u>

<sup>\*</sup> Before extraordinary adjustments

### 11. Budget figures

The budget figures in the financial statements are from the 1986 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on May 13, 1986.

The Estimated year-end savings figure in the Statement of budgetary expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

### 12. Comparative figures

The 1986 comparative figures have been reclassified where necessary to conform with the 1987 financial statement presentation.

### a) 1985-86 Extraordinary Adjustments

Before 1985-86, loans and advances made to, and investments made in, Crown corporations, boards and commissions were recorded as financial assets. In some cases, the funds required to repay the advances and loans were effectively provided out of provincial expenditure appropriations. Following an announcement in the October 1985 Budget, certain advances, loans and investments in corporations, boards and commissions were written down or forgiven. The write-offs or loan forgiveness were classified as extraordinary adjustments, since they were not typical of normal government activities and were not considered as recurring factors in any evaluation of ordinary government operations.

In summary, extraordinary adjustments and their impact:

increased budgetary expenditure	\$3,671 million
<ul> <li>increased non-budgetary contribution</li> </ul>	\$3,166 million
<ul> <li>increased net cash requirements</li> </ul>	\$505 million

Full details were described in the 1986 Financial Report and the 1986 Public Accounts. For better comparison, the 1987 financial statements are compared to 1986 excluding the extraordinary adjustments.

### b) Interprovincial lotteries

Prior to April 1, 1986, interprovincial lottery profits were paid into a non-budgetary special purpose account from which authorized payments were made. This account had a balance of \$330 million at March 31, 1986

Beginning in 1986-87, interprovincial lottery profits are reported as budgetary revenue. The 1986 results have been restated on a comparative basis:

•	budgetary revenue increased by	\$181 million
•	budgetary expenditure increased by	\$65 million
•	budgetary deficit decreased by	\$116 million
•	special purpose accounts decreased by	\$330 million
•	March 31, 1986 accumulated deficit	
	decreased by	\$330 million

### 13. Ontario Land Corporation

As at March 31, 1987, the Ontario Land Corporation (OLC) was dissolved and its assets taken over by the Ontario Mortgage Corporation and the Province. The Province assumed a liability of \$32 million in debentures due to Canada Mortgage and Housing Corporation together with a debt retirement fund of \$35 million established by OLC. This retirement fund consisted of cash and marketable securities of \$15 million and \$20 million of mortgages. In addition, the Province assumed a further \$16 million in mortgage assets, together with a net amount due to the Province from OLC on liquidation of \$5 million. Since the Province merely assumed existing assets and liabilities, those transactions were effected directly to the Statement of financial position:

debt increased by	\$32 million
cash and temporary investments increased by	\$15 million
other loans increased by	\$41 million
accumulated deficit decreased by	\$24 million

### **Sources of Additional Information**

### The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. The background and implication of any new tax proposals are contained in the Budget papers, which include the Budget Statement, Budget measures the fiscal plan and other information. Copies may be obtained free from the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to the Publications Services Section, 5th Floor, 880 Bay St., Toronto, Ontario M7A 1N8

### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Treasurer. The estimates outline the spending plans of each Ministry that the Legislative Assembly will be asked to approve in the form of the Supply Ac and various other appropriation acts. Supplementary estimates are tabled as required during the fiscal year. Copie of the estimates may be obtained free from the Ontario Government Bookstore, 880 Bay Street, Toronto or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

### The Public Accounts of Ontario

The Public Accounts of Ontario, the government's annual financial report required by Section 13 of the Ministry of Treasury and Economics Act for the fiscal year ended March 31, is tabled in the Legislature usually in October of each year. They consist of three volumes:

- Volume 1 contains the financial statements of the Province and schedules of supporting information.
- Volume 2 contains the financial statements of those provincial Crown corporations, boards and commissions in
  which the Province has an investment or that have borrowed from the Province or from others with a guarantee by
  the Province. Also included are selected agencies and certain significant operational agencies that are funded in
  whole or in part by revenues generated from their operations.
- Volume 3 contains the details of expenditures required by the Standing Public Accounts Committee.

The Public Accounts are available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario Prices are: Volume 1, \$3; Volume 2, \$2; Volume 3, \$2.50.

#### Ontario Finances

This is a quarterly report on the government's Budget for the fiscal year. It covers developments during the fiscal year and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

### **Ontario Statistics**

This report supplies information on four areas -- the Land, the People, the Economy and the Government. The lates edition (1986) is available from the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8. Price: \$20.

### **Ontario Economic Accounts**

This quarterly report contains data on changes in Ontario's economic growth. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Office of Economic Policy, 5th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.

### **Demographic Bulletin**

This bulletin provides statistics on the components of population changes in Ontario and is produced intermittently during the year. Copies may be obtained free from the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8.





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### Treasurer's Statement

I am pleased to present the 1988 Financial Report of the Province of Ontario. It highlights the major aspects of Ontario's finances and presents summarized financial statements of the Province for the fiscal year ended March 31, 1988. The 1987-88 Public Accounts, which will be submitted to the Ontario Legislature later this year, provide more detailed financial information.

Both the deficit and net cash requirements are at their lowest levels in six years, a continuing positive trend. The deficit for the year was \$2,489 million, down \$145 million from the previous year. The net cash requirements of \$1,286 million are down from \$1,348 million in 1986-87.

Comments or questions on the contents of this Report are welcomed. You are invited to send them to the Office of the Treasury, Ministry of Treasury and Economics, 2nd Floor, Frost Building North, Queen's Park, Toronto, Ontario M7A 1Y7, telephone (416) 965-5273.

Robert F. Nixon Treasurer of Ontario

Toronto, August 1988





### The Year in Review

Highlights (\$ millions)		1987-88	1986-87
Revenue		E-19 VESTARE	29,544
Expenditure			32,178
Deficit			2,634
Other trans	actions (net)		1,286
Net cash red	quirements		1,348
Gross dome	stic product*		204,411

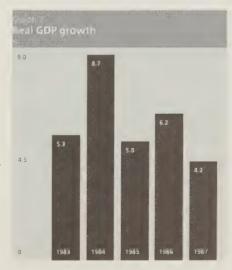
<sup>\*</sup> Calculated on a calendar year basis.

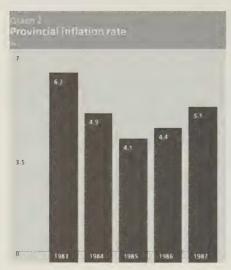
### Ontario's economy

In 1987, Ontario's economy continued its strong performance. This was due to substantial advances in consumer and business spending with the housing sector showing exceptional strength. Recent trends in provincial economic indicators are set out in the following graphs and commentary.

### Real gross domestic product (GDP) growth

A key measure of the productive health of the provincial economy is real GDP growth-the percentage change in the value of all goods and services produced in Ontario, adjusted for inflation. In 1987, real GDP rose 4.2 per cent, marking the fifth consecutive year of economic growth in Ontario.





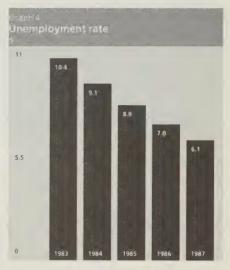
### Provincial rate of inflation

The rate of inflation in Ontario, as measured by the Consumer Price Index, has been moderate throughout the expansion, rising by 5.1 per cent in 1987.



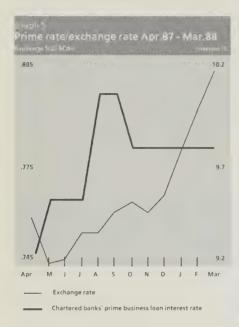
### Growth in employment

A central element of an economy's health is its ability to create jobs. Strong economic growth in Ontario has led to substantial gains in employment. Employment grew by 3.3 per cent in 1987.



### Unemployment rate

The average annual unemployment rate continued to decline, dropping to 6.1 per cent in 1987 from 7.0 per cent in 1986.



### Interest rate and exchange rate

During fiscal 1987-88, the Canadian dollar continued to appreciate against the U.S. dollar.

The prime rate in Canada rose in the first half of the fiscal year and fell to a stable 9.75 per cent in the second half of the fiscal year, generally in line with the movement of U.S. interest rates.

### Revenue highlights

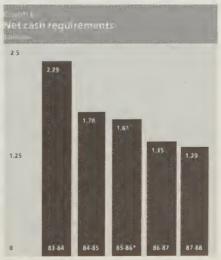
Revenues at \$32,453 million were \$175 million above the Budget forecast. Retail Sales Tax was \$245 million more than originally budgeted due to higher levels of consumer spending. This was offset partly by lower than expected revenues from personal and corporations taxes.

### Expenditure highlights

Expenditures at \$34,942 million, were \$596 million above the Budget plan. The Ontario Health Insurance Plan received an additional \$198 million for payments to doctors and other practitioners, reflecting increased utilization of insured services and adjustments to the OHIP schedule of benefits. Payments under the Family Benefits and General Welfare Assistance programs required an additional \$126 million due to higher caseloads and increased benefit rates. School boards received an additional \$90 million for increased school enrolments.

### Net cash requirements

Net cash requirements for the year ended March 31, 1988 were \$1,286 million, \$306 million above the Budget estimate. Graph 6 shows the net cash requirements for the past five years with 1988 being down \$1 billion from 1984.



\* Before extraordinary adjustments

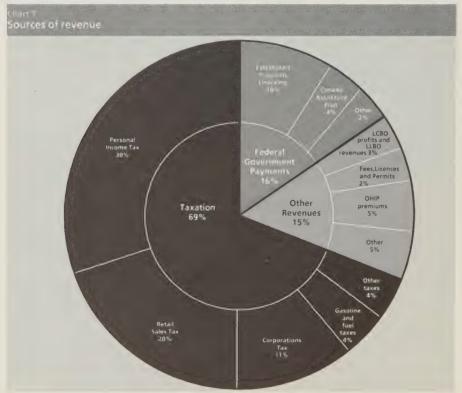
### Revenue

Revenue for 1988 was \$32,453 million. The major sources of revenue and their respective percentages are shown in Chart 7. A comparison of the major sources of revenue against the original Budget is shown in Table 1.

### Taxation

Retail Sales Tax was \$245 million above the 1987-88 Budget estimate, reflecting stronger than expected consumer spending which was aided by lower interest rates and increased employment.

Personal income tax revenue was \$100 million below the Budget estimate because adjustments for prior years by the federal government were less than expected. Corporations tax revenue was \$100 million below the Budget estimate due to larger than anticipated refunds in respect of prior years. Higher public utilities income tax revenues, gasoline tax revenues and land transfer tax revenues partially offset these decreases.



# Payments from the Government of Canada

Total payments of \$5,075 million were \$47 million above the Budget estimate.

Canada Assistance Plan payments increased by \$65 million, reflecting higher social assistance spending by the Province. This increase was offset by lower payments under Established Programs Financing of \$14 million.

### Health insurance premiums

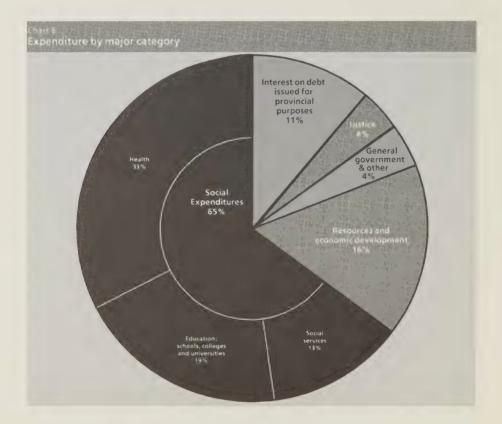
Premiums of \$1,723 million collected under the Ontario Health Insurance Plan (OHIP) were \$36 million more than the Budget estimate as a result of growth in population and employment. A broad program of premium assistance is in place for senior citizens, social assistance recipients and others requiring financial assistance which cost approximately \$770 million in forgone premium revenue.

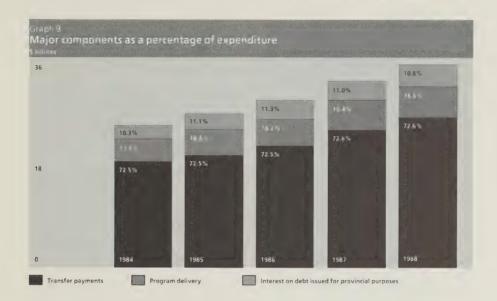
Performance of major revenues 1987-88					Table 1	
(\$ millions)	Actual		Budget		Variance	
Taxation: Personal income tax Retail sales tax Corporations tax Other	9,859 6,305 3,600 2,625	22,389	9,959 6,060 3,700 2,543	22,262	-100 +245 -100 +82	+127
Government of Canada: Established programs financing Canada Assistance Plan Other	3,209 1,305 561	5,075	3,223 1,240 565	5,028	-14 +65 <u>-4</u>	+47
OHIP premiums LCBO profits and LLBO revenues Fees, licences and permits Ontario Lottery Corporation Interest on investments, etc. Other	1,723 1,002 755 470 295 744	4,989 0	1,687 998 778 500 300 725	4,988	+36 +4 -23 -30 -5 +19	+1
Total		32,453		32,278		+175

# **Expenditure and its Major Components**

Total expenditure was \$34,942 million, \$596 million over the Budget estimate. Chart 8 shows expenditure by major category.

The major components of expenditure are transfer payments, program delivery costs and interest on debt issued for provincial purposes. Graph 9 illustrates the five year trend of these components as a percentage of total expenditure.





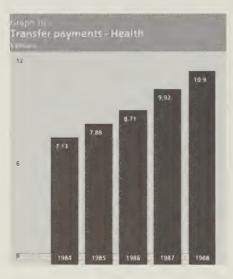
### Transfer payments

Transfer payments, which include grants, subsidies and assistance to persons and other government bodies, represented 72.6 per cent of expenditure and amounted to \$25,366 million.

Graphs 10, 11 and 12 show the five year trend of transfer payments for health, education and social services.

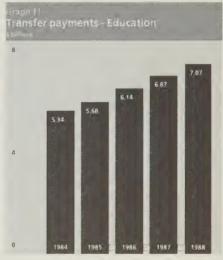
- Health transfer payments of \$10,940 million included:
- \$5,510 million (50%) transferred to hospitals and related facilities for operating and capital purposes;
- \$3,628 million (33%) as payments to physicians and other health practitioners for services and health care provided under the Ontario Health Insurance Plan (OHIP);
- \$1,276 million (12%) for extended and special care programs, ambulance and other health services;

- \$498 million (4%) in free prescription drugs provided to seniors.



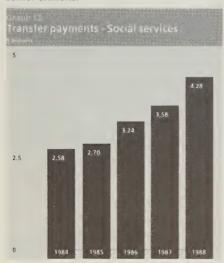
- Educational transfer payments were \$7,068 million. The Province supports local school boards for primary and secondary schools, as well as by funding universities, colleges and other post-secondary institutions. Major elements were:
- \$3,816 million (54%) to local school boards for their operating and capital costs;
- \$2,175 million (31%) to the postsecondary educational sector for operating and capital costs:

- \$476 million (7%), as the matching employer's share of teachers' contributions for the Teachers' Superannuation and Adjustment Funds, and to supplement the pensions paid under these plans.

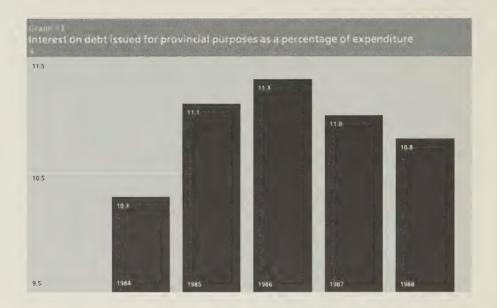


- Social services transfer payments totalled \$4,280 million. These payments are made mainly by the Ministry of Community and Social Services. Major elements were:
- \$2,409 million (56%) for income maintenance to individuals requiring assistance on a long-term basis and subsidies to municipalities for their temporary assistance programs;

- \$877 million (20%) toward the support of children's programs such as children's aid societies, child care, mental health facilities and young offender's programs;
- \$561 million (13%) paid by the Ministry of Revenue, in the form of property tax grants, sales tax grants and guaranteed annual income system, all of which benefit Ontario senior citizens.



- Transfer payments to local governments, designed to assist general municipal programs totalled \$2,429 million. Major elements were:
- unconditional grants to municipalities of \$824 million;
- subsidies of \$627 million to municipalities for road programs;
- capital and operating subsidies of \$323 million for municipal transportation systems.



### Program delivery

Program delivery costs, which consist of public servants' salaries and benefits and other direct operating expenditures, totalled \$5,805 million or 16.6 per cent of total expenditures.

# Interest on debt issued for provincial purposes

Interest costs associated with debt for provincial purposes were \$3,771 million, 10.8 per cent of expenditure, down from 11.0 per cent in the previous year. Graph 13 shows the five year trend of interest costs.

### Capital investments

The capital investments of the Province include direct capital projects such as provincial highways and the Province's share of capital spending undertaken by municipalities, hospitals, universities, school boards, other provincial organizations and joint projects with private industry.

In fiscal 1987-88, these investments amounted to \$2,623 million, up from \$2,473 million the year before.

### Other Transactions

Other transactions consist of lending and Lending and investment investment activities as well as the administration of pension and related benefit funds and special purpose accounts. These transactions resulted in net inflows to the Consolidated Revenue Fund of \$1.203 million, \$115 million over the 1987-88 Budget estimate.

### Pension and related benefit funds

Net inflows of these funds, consisting of deposits and interest earnings less payments, were \$824 million. These represent employer and employee contributions and interest earnings of funds held mainly for government employees, members of the Legislature, provincial judges and the Superannuation Adjustment Fund.

Loans and advances to, and investments in various Crown agencies and local governments amounted to \$144 million. Repayments of loans and advances were \$370 million, producing a net inflow of \$226 million.

### Special purpose accounts

Net inflows from these accounts were \$153 million, consisting mainly of Province of Ontario Savings Office deposits and a variety of special purpose accounts. The Savings Office, with 21 branches in Ontario. accepts interest-bearing deposits from the general public and provides chequing privileges. All deposits are fully guaranteed by the Province. Funds surplus to the dayto-day operating needs are deposited with the Treasurer of Ontario. The balance on deposit at year end was \$1.073 million, an increase of \$161 million from the previous year.

Other transactions (net)			Table 2
(\$ millions)	Budget 1987-88	Actual 1987-88	Actual 1986-87
Pension and related benefit funds - net payments into funds	824	824	760
Loans, advances and investments in various Crown agencies and local governments - net repayments	139	226	313
Special purpose accounts - net increase in funds held	125	153	213
Total other transactions (net)	1,088	1,203	1,286

### Consolidated Debt of the Ontario Public Sector

Debt includes obligations that have a specified term to maturity and are secured by debt instruments including bonds, debentures, notes and treasury bills. Ontario's outstanding debt of \$36,363 million comprised \$28,822 million for its own purposes and \$7,541 million incurred for Ontario Hydro. In addition, the Province's statement of financial position shows other liabilities, mainly to public sector pension plans.

As shown on Graph 14, the Province has borrowed mainly from the Canada Pension Plan (CPP) and the Teachers' Superannuation Fund (TSF). The proportion of the CPP investable surplus funds offered for borrowing by the Province is in the same proportion as Ontario residents' contributions bear to the total contributions to the Plan. \$376 million of CPP debt was repaid in 1987-88 and as a result, Ontario's own purpose CPP debt declined by \$334 million.

The Teachers' Superannuation Commission, which administers the pension plan of the teachers in Ontario, invests its surplus funds in provincial securities. The Province borrowed \$1,620 million from the TSF in 1987-88.

The Province also borrows on behalf of Ontario Hydro in the United States and from the Canada Pension Plan. The proceeds advanced to Ontario Hydro are secured by bonds bearing like terms and

conditions to the securities issued by Ontario. Of the \$7,541 million outstanding at March 31, 1988, \$6,033 million was borrowed in the United States and \$1,508 million from CPP.

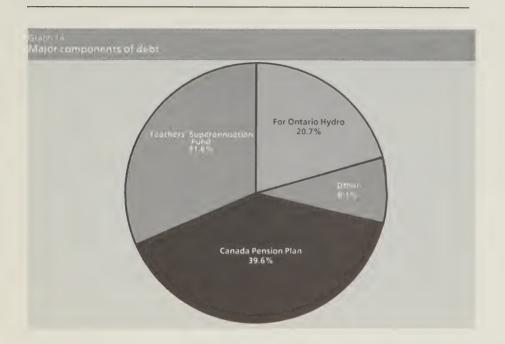
In addition, securities issued by Ontario Hydro in other markets are guaranteed by the Province. This contingent liability amounted to \$17,487 million at year end.

### Public sector debt

A broad measure of debt in Ontario is presented in Table 3 and includes:

- Ontario's debt for provincial purposes;
- Ontario's debt issued on behalf of Ontario Hydro;
- obligations issued by Ontario Hydro and guaranteed by the Province;
- debt incurred by provincial agencies and by the local government, university and hospital sectors.

The consolidated debt approach highlights the effects of Ontario's policy of centralized public sector financing through which the Province's own financial base has been used to fund the local government sector and its agencies. The Province has also carefully controlled the use of the provincial guarantee, restricting it almost exclusively to borrowings by Ontario Hydro.



Consolidated debt of the Ontario public sector				
March 31	Interim		Actual	
(\$millions)	1988	%	1987	%
Debt incurred for  - Provincial purposes  - Ontario Hydro Guaranteed Debt*	28,822 7,541	49.9 13.0	27,921 7,786	49.4 13.8
- Ontario Hydro	17,487	30.2	16,509	29.3
Sub-Total	53,850	93.1	52,216	92.5
Other Public Sector Debt Provincial Agencies Local Government Sector** University and Hospital Sector	1,258 2,569 167	2.2 4.4 0.3	1,399 2,630 178	2.5 4.7 0.3
Sub-Total	3,994	6.9	4,207	7.5
Total	57,844	100.0	56,423	100.0

<sup>\*</sup> The guaranteed debt excludes bank loans and is not of debt accumulated by Ontario Hydro for early retirement, which in 1988 was \$1,062 million (1987 \$994 million).

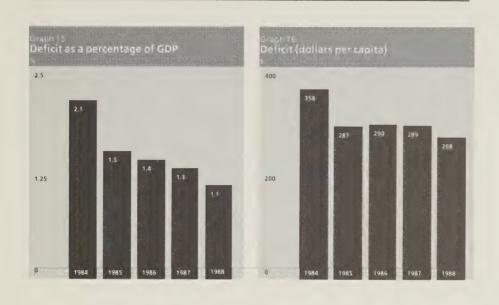
<sup>\*\*</sup> The local government sector debt excludes sinking funds and own holdings, which in 1988 totalled \$791 million (1987 \$763 million).

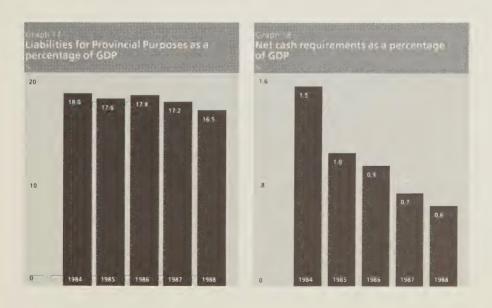
# **Selected Financial and Economic Statistics**

March 31 (\$ millions)	87-88	86-87	85-86*	84-85	83-84
Revenue	32,453	29,544	26,240	23,893	21,412
Expenditure	34,942	32,178	28,854	26,452	24,565
Deficit	2,489	2,634	2,614	2,559	3,153
Other transactions (net)					
Repayments and deposits	1,724	1,677	1,452	1,303	1,235
Payments	521	391	443	446	371
Other transactions (net)	1,203	1,286	1,009	857	864
Net cash requirements	1,286	1,348	1,605	1,702	2,289
Provincial debt transactions (net)	901	1,194	2,102	2,090	2,860
Ontario Hydro debt transactions (net)	(245)	(403)	(17)	719	429
Liabilities Debt incurred for - Provincial purposes	28,822	27,921	26,695	24,593	22,503
- Ontario Hydro	7,541	7,786	8,189	8,206	7,487
Other	8,159	7,182	6,209	5,448	4,903
Total liabilities	44,522	42,889	41,093	38,247	34,893
Gross domestic product at market prices <sup>1</sup>	223,952	204,411	184,973	170,632	151,945
Gross domestic product in constant (1981) prices <sup>1</sup>	168,228	161,407	151,970	144,686	133,096
Personal income (Ontario)1	186,003	172,075	159,133	146,073	131,947
Personal income (Ontario) per capita <sup>1</sup> (June 1 population) (in dollars)	20,063	18,882	17,670	16,409	14,997
Net cash requirements/GDP(%)	0.6	0.7	0.9	1.0	1.5
Debt incurred for provincial purposes/GDP (%)	12.9	13.7	14.4	14.4	14.8
Consolidated debt of the public sector/GDP (%)	25.8	27.7	29.4	29.7	31.1
Contingent liabilities	18,595	17,603	15,963	14,220	12,711

 $<sup>^1</sup>$  Gross domestic product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

<sup>\*</sup> Before extraordinary adjustments







# 1988 Financial Statements

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### **Summary of Significant Accounting Policies**

### Reporting entity

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province are designed to accommodate reporting to the Legislature and accordingly the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. The activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from or have contributed to the Consolidated Revenue Fund.

### Basis of accounting

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for obligations incurred during the fiscal year just ended. Cash inflows, however, are closed at March 31 for cash received or in transit.

Loans and advances are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of their underlying security has diminished, or when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of \$1.

### Revenue

This includes revenue raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and shared-cost programs, and income from investments.

### Expenditures

Expenditures on government programs include transfer payments to individuals, local governments and institutions, interest on debt issued for provincial purposes, salaries and employee benefits, payments for goods and services, and the acquisition and construction of fixed assets. Fixed asset costs are charged to expenditure when acquired or constructed since they are not considered to differ from any other service to the public.

### Other transactions

Other transactions are the lending, investment and special account administration activities of the Government, including loans, advances and investments, pension and related benefit funds and special purpose accounts. The transactions affect only asset and liability accounts.

### Loans, advances and investments

These are the lending and investment activities in various Crown corporations, agencies and local governments.

### Pension and related benefit funds

Pension and related benefit funds which are mainly for government employees, members of the Legislature and Provincial judges are comprised of employee and employer contributions and interest earnings less payments made.

### Special purpose accounts

Special purpose accounts are generally established by legislation and administered by the Province. Deposits with the Province of Ontario Savings Office and the Motor Vehicle Accident Claims Fund are major examples.

### Financing transactions

Financing consists of debt transactions and the net change in cash and temporary investments.

Debt transactions are the borrowing and repayment activities for the Province's own purposes.

# Financial assets, accumulated deficit and liabilities

### Financial assets

Financial assets are claims by the Consolidated Revenue Fund on other parties and have been created by cash transactions.

### Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and its financial assets. The year-to-year change in the accumulated deficit is the amount by which revenues are greater or less than expenditures.

### Liabilities

Liabilities are claims by other parties on the Consolidated Revenue Fund.

Debt incurred for provincial purposes comprises debentures, notes and treasury bills which are recorded at face value. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include pension and related benefit funds, deposits with the Province of Ontario Savings Office and other special purpose accounts.

### Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown. Contingent liabilities denominated in foreign currencies are translated to Canadian dollars at year-end rates of exchange.

### Ontario Hydro

Advances to, and debt incurred for, Ontario Hydro relate to amounts borrowed on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan, they are classified separately. Both the advances and debt incurred are stated in Canadian dollars using the year-end rate of exchange.

# Statement of Consolidated Revenue Fund Transactions

Province of Ontario					
For the year ended March 31, 1988 (\$ millions)	Budget 1988	Actual 1988	Actual 1987		
Revenue	32,278	32,453	29,544		
Expenditure	34,346	34,942	32,178		
Deficit	2,068	2,489	2,634		
Other transactions (net)					
Pension and related benefit funds	824	824	760		
Loans, advances and investments	139	226	313		
Special purpose accounts	125	153	213		
Total other transactions (net)	1,088	1,203	1,286		
Net cash requirements	980	1,286	1,348		
Financing					
Debt transactions Proceeds of loans net of retirements	992	901	1,194		
(Increase)/decrease in cash and temporary investments	(12	2)	<u>154</u>		
Total financing	980	1,286	1,348		

See accompanying Summary of significant accounting policies and Notes to the financial statements.

# **Statement of Revenue**

Province of On			
For the year ended March 31, 1988	Budget 1988	Actual 1988	Actua 198'
(\$ millions) Taxation	1300	1900	130
Personal income tax	9,959	9,859	8,618
Retail sales tax	6,060	6,305	5,60
Corporations tax	3,700	3,600	3,20
Gasoline tax	1,000	1,035	98
Tobacco tax	630	639	61
Land transfer tax	450	477	35
Fuel tax	280	291	26
Public utilities income tax	45	90	1
Race tracks tax	75	75	7
Mining profits tax	50	13	12
Other	13	5	1
Other			
	22,262	22,389	19,86
Other revenue			
Ontario Health Insurance Plan premiums	1,687	1,723	1,66
Profits from Crown corporations and boards			
Liquor Control Board of Ontario	670	651	62
Ontario Lottery Corporation	500	470	46
Vehicle registration fees	498	506	43
Liquor Licence Board of Ontario revenues	328	351	32
Interest on investments, loans and advances	300	295	32
Other fees and licences	280	249	25
Royalties	170	177	16
Utility service charges	135	145	12
Fines and penalties	100	104	9
Sales and rentals	100	96	9
Other	_220	222	_ 22:
	4,988	4,989	4,81
Government of Canada			
Established Programs Financing			
Cash Contribution	2,790	2,773	2.81
Extended Health Care Services	433	436	40'
Canada Assistance Plan	1,240	1,305	1,12
National Training Agreement	127	131	15
Other	438	430	37
	5,028	5,075	4,870
Total revenue	32,278	32,453	29,544
Total revenue	34,410	34,400	29,544

See accompanying Summary of significant accounting policies and Notes to the financial statements.

# **Statement of Expenditure**

Province of Ontario					
For the year ended March 31, 1988 (\$ millions)	Budget 1988	Actual 1988	Actual 1987		
Ministry					
Agriculture and Food	542	566	465		
Attorney General	357	382	327		
Office Responsible for Women's Issues	18	17	8		
Office Responsible for Native Affairs	4	2	4		
Citizenship	40	39	35		
Colleges and Universities	2,400	2,391	2,254		
Community and Social Services	3,636	3,775	3,285		
Consumer and Commercial Relations	130	3 135	113		
Correctional Services	380	402	330		
Culture and Communications	224	227	249		
Education	4,382	9 4,447	4,383		
Energy	45	0.00 43	43		
Environment	397	385	340		
Financial Institutions	30	31	23		
Government Services	525	542	461		
Office Responsible for Disabled Persons	7	6	5		
Office Responsible for Senior Citizens Affairs	9	5	3		
Health	11,271	11,529	10,480		
Housing	378	333	296		
Industry, Trade and Technology	174	173	197		
Intergovernmental Affairs	8	9	7		
Labour	111	107	90		
Legislative and Executive Offices	12	10	9		
Management Board of Cabinet	35	37	25		
Municipal Affairs	930	922	891		
Natural Resources	548	552	529		
Northern Development and Mines	275	239	220		
Revenue	794	786	703		
Skills Development	455	385	405		
Solicitor General	412	405	368		
Tourism and Recreation	175	169	167		
Transportation	1,900	1,914	1,765		
Treasury and Economics	190	93	74		
Interest on debt issued for provincial purposes	3,820	3,771	3,539		
Other	82	113	85		
Expenditure savings and constraints (note 10)	(350)				
Total expenditure (note 9)	34,346	34,942	32,178		

See accompanying Summary of significant accounting policies and Notes to the financial statements.

## **Statement of Other Transactions**

Province of Onta			
For the year ended March 31, 1988	Budget	Actual	Actual
(\$ millions)	1988	1988	1987
Pension and related benefit funds			
DEPOSITS TO:			
Public Service Superannuation Fund	780	789	714
Superannuation Adjustment Fund	350	345	313
Other	26		22
	<u>1,156</u>	1,158	1,049
PAYMENTS FROM:			
Public Service Superannuation Fund	203	206	181
Superannuation Adjustment Fund	118	119	100
Other	11	9	8
	332	334	289
		304 %	203
Net deposit to pension and related benefit funds	824	824	7.00
	024	824	760
Loans, advances and investments			
REPAYMENTS BY:			
Corporations, boards and commissions			
Ontario Mortgage Corporation	120	144	177
Development Corporations	40	71	64
Other	10	8	8
School boards	45	45	49
Water treatment and waste control facilities	28	34	52
Local governments	23	43	47
Other loans, advances and investments	_30		8
	296	370	405
PAYMENTS TO:			
Corporations, boards and commissions			
Development Corporations	88	103	47
Other	1		
Water treatment and waste control facilities	21	20	17
Local governments	21	20	23
Other loans, advances and investments	26	291 - 1	5
	157	144	92
Net repayments of loans, advances			
and investments	139	226	313

See accompanying Summary of significant accounting policies and Notes to the financial statements.

# Statement of Other Transactions (continued)

Province of Ontario					
For the year ended March 31, 1988 (\$ millions)	Budget 1988	Actual 1988	Actual 1987		
Special purpose accounts					
DEPOSITS TO:					
Province of Ontario Savings Office (net)	100	161	195		
Motor Vehicle Accident Claims Fund	10	12	13		
Other	<u>26</u>	23	15		
	136	196	223		
PAYMENTS FROM:					
Motor Vehicle Accident Claims Fund	9	6	6		
Other	2	37_	4		
	11	43	10		
Net deposits to special purpose accounts	125	153	213		
Total other transactions (net)	1,088	1,203	1,286		

See accompanying Summary of significant accounting policies and Notes to the financial statements.

### **Statement of Debt Transactions**

Province of Ontario					
For the year ended March 31, 1988 (\$ millions)	Budget 1988	Actual 1988	Actual 1987		
Proceeds of loans					
Canada Pension Plan Investment Fund		42	232		
Teachers' Superannuation Fund	1,625	1,620	1,310		
Total proceeds of loans	1,625	1,662	1,542		
Retirements of loans					
Canada Pension Plan Investment Fund	376	376	333		
Teachers' Superannuation Fund	176	176			
Other debentures and notes	_81	209	15		
Total retirements of loans	633	761	348		
Debt transactions (net)	992	901	1,194		

See accompanying Summary of significant accounting policies and Notes to the financial statements.

### **Statement of Financial Position**

Province of Ontario				
As at March 31, 1988 (\$ millions)	1988	1987		
Financial assets				
Cash and temporary investments (note 1)	1,594	1,979		
Investments in water treatment and waste control facilities (at cost less recoveries) (note 2)	468	482		
Loans to local governments	448	516		
Advances to corporations, boards and commissions (note 3)	383	503		
Other loans	68	92		
	2,961	3,572		
Advances to Ontario Hydro, secured by bonds (note 4)	7,541	7,786		
Total financial assets	10,502	11,358		
Accumulated deficit	34,020	31,531		
	44,522	42,889		
Liabilities				
Debt incurred for provincial purposes (note 5)	28,822	27,921		
Pension and related benefit funds (note 6)	6,981	6,157		
Deposits with the Province of Ontario Savings Office	1,073	912		
Special purpose accounts	<u>105</u>	113		
Total liabilities for provincial purposes	36,981	35,103		
Debt incurred for Ontario Hydro (note 5)	7,541	7,786		
	44,522	42,889		
Contingent liabilities (note 8)	18,595	17,603		

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1988 financial statements of the Province of Ontario, including the notes are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 20, 1988.

M. MogFORD, Deputy Treasurer of Ontario and Deputy Minister of Economics

Y. Typall

W.D. TYSALL, C.A., Director, Financial Information and Accounting Policy Branch

### Notes to the Financial Statements

(all tables in millions of dollars)

### 1. Cash and temporary investments

Temporary investments are mainly marketable, short-term securities issued by Canadian chartered banks, provincial and federal governments and are recorded at cost.

### 2. Investments in water treatment and waste control facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering \$404 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to \$36 million at March 31, 1988 (1987 \$36 million), was applied as a reduction of the investment account.

### 3. Advances to corporations, boards and commissions

	1988	1987
Development Corporations	\$290	\$258
Other	93	_245
	<u>\$383</u>	<u>\$503</u>

The Province advances funds for the lending activities carried out by the Development Corporations. The province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to \$19 million in 1988 (1987 \$16 million). Advances to the Corporations are reduced by their loan forgiveness and write-offs, amounting to \$23 million in 1988 (1987 \$16 million).

### 4. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1988, the bonds consist of U.S. \$4,888 million (1987 U.S. \$5,109 million), and Canadian \$1,508 million (1987 Canadian \$1,119 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at \$6,033 million (1987 \$6,667 million), the Canadian dollar equivalent using the exchange rate in effect at year-end. Transactions during the year are as follows:

Proceeds of loans Retirements of loans Net proceeds/retirements	\$\frac{1988}{389} \$\frac{(280)}{109}\$	1987 \$ 119 (50) 69
Foreign exchange - (gain)/loss	(354)	(472)
Net (decrease) increase in debt incurred for Ontario Hydro purposes	(245)	<u>(403)</u>
Related advances, interest and recoveries Advances to Ontario Hydro Interest	389 884	119 897
Recovery of interest and loan retirements	(1,164)	(947)
Net advances	109 (354)	69 (472)
Foreign exchange - (gain)/loss Net related advances, interest, foreign exchange -	(334)	(+(2)
(gain)/loss and recoveries	\$ (245)	\$ (403)

### 5. Debt

Debentures, notes and treasury bills for provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of repayment/maturity in the following tables.

	For	Provincial pur	poses	
	1988		<u>198</u>	<u> </u>
Years of repayment/		Weighted average		Weighted average
maturity March 31		interest rate %		interest rate %
1988 1989 1990 1991 1992 1993	\$ 1,570 454 486 508 1,001		\$ 1,427 920 454 486 508	
1-5 years 6-10 years 11-15 years 16-20 years 21-25 years 26-30 years 31-35 years	$\begin{array}{c} 4,019 \\ 5,148 \\ 7,690 \\ 10,097 \\ 1,772 \\ 74 \\ \underline{22} \\ \underline{\$28,822} \end{array}$	7.82 8.68 11.36 12.28 10.78 9.82 10.22 10.67	3,795 5,047 6,780 10,097 2,093 73 36 \$27,921	7.72 8.28 10.54 12.22 12.76 9.97 10.24 10.52
Payable to:		198	8	1987
Minister of Finance Canada Pension of Other Teachers' Superann The Ontario Munici	Plan Investment F uation Fund	und \$14,393 34 11,47	2	\$14,727 351 10,029
Retirement Fund Public Investors		1,299 1,32 \$28,82	<u>1</u>	1,293 1,521 \$27,921

### For Ontario Hydro

		19	88		198	37
Years of				Weighted		Weighted
repayment/				average		average
maturity		United		interest		interest
March 31	Canadian	States	Total	rate %	Total	rate %
1988	\$	\$	\$		\$ 261	
1989						
1990		247	247		261	
1991		54	54		57	
1992		486	486		514	
1993		_240	_240			
1-5 years		1,027	1,027	13.54	1,093	12.56
6-10 years		485	485	10.19	617	12.95
11-15 years	1,000	613	1,613	11.89	1,611	11.80
16-20 years	508	1,778	2,286	8.91	1,679	8.85
21-25 years		2,010	2,010	11.96	2,416	11.07
26-30 years		120	120	11.75	370	12.78
	<u>\$1,508</u>	\$6,033	\$7,541	11.12	\$7,786	11.18

Payable to:	<u>1988</u>	1987
Minister of Finance of Canada Canada Pension Plan Investment		
Fund	\$1,508	\$1,119
Public Investors	6,033	_6,667
	<u>\$7,541</u>	\$7,786

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is \$354 million (\$472 million in 1987).

As explained in Note 4, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

### 6. Pension and related benefit funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related benefit funds and accounts. The amounts recorded by the Province represent all the assets of these plans.

	1988	1987
Public Service Superannuation Fund	\$5,145	\$4,563
Superannuation Adjustment Fund	1,740	1,514
Legislative Assembly Retirement Allowances		
Account	39	36
Provincial Judges Benefits Fund	44	37
Other	13	7
	<u>\$6,981</u>	\$6,157

The latest actuarial report of the Public Service Superannuation Fund as at December 31, 1985, showed a surplus of \$109.9 million.

The Superannuation Adjustment Fund provides inflation protection to recipients of pensions payable from the Public Service Superannuation Plan, the Teachers' Superannuation Plan and the Retirement Pension Plan of the Ryerson Polytechnical Institute. Recipients include deferred annuitants as well as those in receipt of a pension. Funding is on a modified pay-as-you-go basis. Two recently released reports, the Report on the Task Force on the Investment of Public Sector Pension Funds, chaired by Malcolm Rowan and the Report on the Financing of Benefits under the Superannuation Adjustment Benefits Act and Associated Superannuation Plans by Laurence Coward, recommend changes in the ways in which the benefits are funded. The reports are currently under review.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1987, showed a deficit of \$274,801. The Province has made this payment as at March 31, 1988.

### 7. Teachers' Superannuation Fund

The Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund, which is administered by the Teachers' Superannuation Commission. The Province is also committed to paying any deficiency in the Fund.

The latest actuarial report as at December 31, 1984 showed a surplus of \$693 million.

### 8. Contingent liabilities

	1988	1987
Obligations guaranteed by the Province:		
Debentures, bonds and notes Ontario Hydro	\$17,487	\$16,509
Bank loans guaranteed		
Corporations and individuals through various government programs	577	533
Other guarantees	501	E 0.1
Corporations	531	561
	\$18,595	\$17,603

Claims against the Crown:

There are claims outstanding against the Crown of which eight are for amounts over \$50 million each, arising from legal action either in progress or threatened in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, settlements resulting therefrom will be recorded as expenditures when paid.

### 9. Expenditure by standard account classification

	<u>1988</u>	1987
Salaries and wages	\$ 2,919	\$ 2,643
Employee benefits	489	404
Transportation and communication	314	293
Services	1,342	1,201
Supplies and equipment	651	666
Acquisition/construction of physical assets	436	367
Transfer payments	25,410	23,397
Interest on debt issued for provincial purposes	3,771	3,539
Other	169	168
Less: recoveries	(559)	(500)
Total expenditure	\$34,942	\$32,178

### 10. Budget figures

The budget figures in the financial statements are based on data from the 1987 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on May 20, 1987.

The Expenditure savings and constraints figure in the Statement of expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

### 11. Comparative figures

The 1987 comparative figures have been reclassified where necessary to conform with the 1988 financial statement presentation.

### Provincial Auditor's Opinion

I have examined the statement of financial position of the Province of Ontario as at March 31, 1988 and the statements of consolidated revenue fund transactions, revenue, expenditure, other transactions and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph are intended to convey that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than \$70 million.

In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly. A more complete explanation of the Provincial Auditor's opinion will be included in this report.

Sat. auchen

D.F. Archer, F.C.A., Provincial Auditor

Toronto, Ontario July 20, 1988

### Sources of Additional Information

### The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. The background and implications of any new tax proposals are contained in the Budget papers, which include the Budget Statement, Budget measures, the fiscal plan and other information. Copies may be obtained free from the Ontario Government Bookstore, 880 Bay Street, Toronto, 965-6015 or by writing to Publications Ontario, 5th Floor, 880 Bay St., Toronto, Ontario M7A 1N8.

### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Treasurer. The estimates outline the spending plans of each Ministry that the Legislative Assembly will be asked to approve in the form of the Supply Act and various other appropriation acts. Supplementary estimates are tabled as required during the fiscal year. Copies of the estimates may be obtained free from the Ontario Government Bookstore, 880 Bay Street, Toronto, 965-6015 or by writing to Publications Ontario, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

### The Public Accounts of Ontario

The Public Accounts of Ontario, the government's annual financial report required by Section 13 of the Ministry of Treasury and Economics Act for the fiscal year ended March 31, is tabled in the Legislature usually in October of each year. They consist of three volumes:

- Volume 1 contains the financial statements of the Province and schedules of supporting information.
- Volume 2 contains the financial statements of those provincial Crown corporations, boards and commissions in which the Province has an investment or that have borrowed from the Province or from others with a guarantee by the Province. Also included are selected agencies and certain significant operational agencies that are funded in whole or in part by revenues generated from their operations.
- Volume 3 contains the details of expenditures required by the Standing Public Accounts Committee.

  The Public Accounts are available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario.

  Prices are: Volume 1, \$3; Volume 2, \$2; Volume 3, \$2.50.

### **Ontario Finances**

This is a quarterly report on the government's Budget for the fiscal year. It covers developments during the fiscal year and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

### **Ontario Statistics**

This report supplies information on four areas -- the Land, the People, the Economy and the Government. The latest edition (1986) is available from the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to Publications Ontario, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8. Price: \$20.

### **Ontario Economic Accounts**

This quarterly report contains data on changes in Ontario's economic growth. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Office of Economic Policy, Economic Forecasting Branch, 6th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.

### Demographic Bulletin

This bulletin provides statistics on the components of population changes in Ontario and is produced intermittently during the year. Copies may be obtained free from the the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to Publications Ontario, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8.





# Financial Report





ROBERT F. NIXON • TREASURER OF ONTARIO



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Copies of the report in English or French are available free from the Ontario government bookstore, Publications Ontario, 880 Bay St. Toronto.
Out-of-town customers write to Publications Ontario, 5th Floor, 880 Bay St., Toronto, Ontario, M7A 1N8. Telephone 326-5300. Toll free long distance 1-800-668-9938.

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On peut obtenir des exemplaires gratuits de ce rapport en français ou en anglais en en faisant la demande à la librairie du gouvernement de l'Ontario, Publications Ontario, 880, rue Bay à Toronto.

On peut aussi écrire à Publications Ontario 5º étage 880, rue Bay, Toronto (Ontario) M7A 1N8.

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### **Treasurer's Statement**

I am pleased to present the 1989 Financial Report of the Province of Ontario. It highlights the major aspects of Ontario's finances and presents summarized financial statements of the Province for the fiscal year ended March 31, 1989. The 1988-89 Public Accounts, which will be submitted to the Ontario Legislature later this year, provide more detailed financial information.

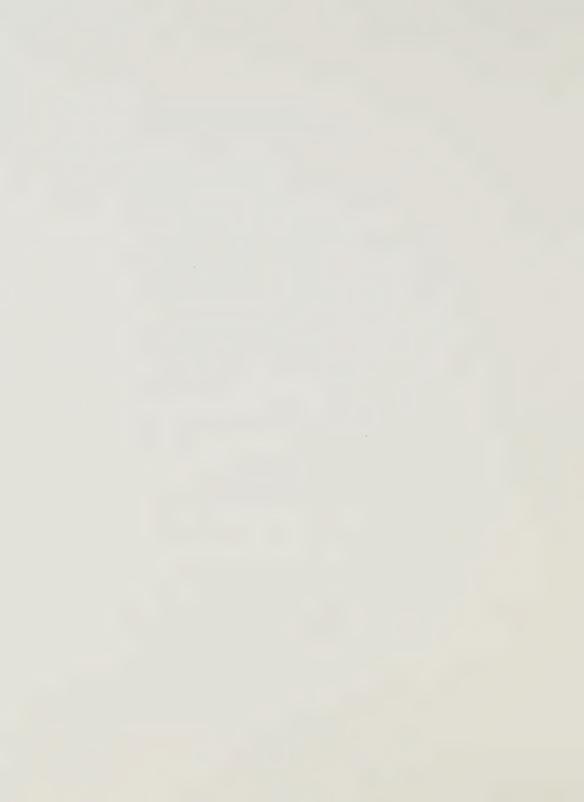
For the sixth consecutive year, real growth in Ontario exceeded 4%, making the current economic expansion the longest and strongest since the 1961-73 expansion. The deficit at \$1,479 million is the lowest since 1980-81.

Comments or questions on the contents of this Report are welcomed. You are invited to send them to the Office of the Treasury, Ministry of Treasury and Economics, 2nd Floor, Frost Building North, Queen's Park, Toronto, Ontario M7A 1Y7, telephone (416) 965-5273.

Robert F. Nixon Treasurer of Ontario

Toronto, August 1989





### The Year in Review

Highlights (\$ millions)	1988-89	1987-88
Revenue	37,256	32,453
Expenditure	38,735	34,942
Deficit	5,479	2,489
Other accounts (net)	1.429	1,203
Net cash requirements	S0	1,286
Gross domestic product*	246,35%	224,674

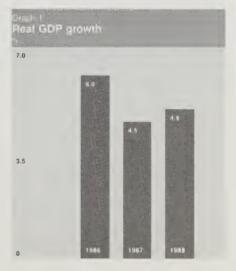
<sup>\*</sup> Calculated on a calendar year basis (subject to subsequent adjustments as federal statistics become available.)

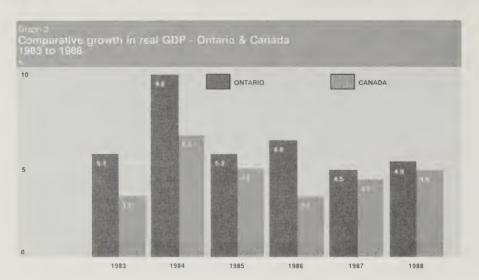
### Ontario's economy

In 1988, Ontario's economy continued its strong performance. This was due to healthy advances in consumer and business spending. Recent trends in provincial economic indicators are reflected in the following graphs and commentary.

### Real gross domestic product (GDP) growth

GDP measures the percentage change in the value of all goods and services produced in Ontario, adjusted for inflation. Real growth GDP is a key measure of the productive health of the provincial economy. In 1988, real GDP rose 4.9 per cent.



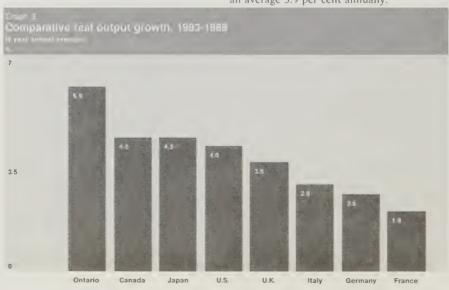


### Growth in real GDP

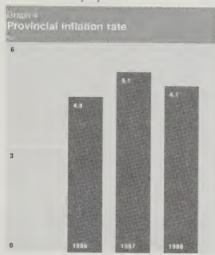
Real GDP in Ontario has risen by more than 40 per cent over the past six years. During this time, growth in the Ontario economy has outpaced growth in the rest of Canada.

International comparison of real output growth

During the six consecutive years of economic growth in Ontario, real output has outpaced all the major industrial nations by growing at an average 5.9 per cent annually.



### Provincial rate of inflation



The rate of inflation in Ontario, in terms of the Consumer Price Index, has been moderate throughout the period of economic expansion. In 1988, inflation increased by 4.7 per cent, down from 5.1 per cent for 1987.

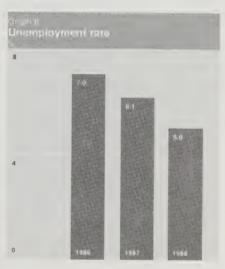


### Growth in employment

Ontario's strong economic growth has led to substantial gains in employment, which grew by 3.7 per cent in 1988.

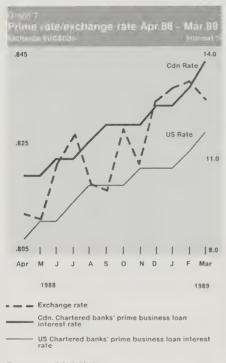
### Unemployment rate

The average annual unemployment rate continued to decline, dropping to 5.0 per cent in 1988 from 6.1 per cent in 1987.



### Interest rate and exchange rate

dollar. The prime rate in Canada rose steadily throughout the fiscal year to 13.5 per cent from 9.8 per cent.



### Revenue highlights

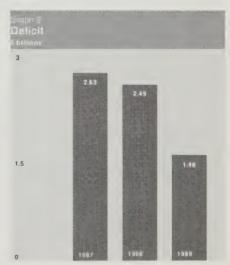
Revenues reached \$37,256 million in 1988-89, an increase of \$913 million above the Budget forecast. Almost all this increase can be attributed to in-year adjustments to the federal forecast of personal income taxes for current and prior years.

### **Expenditure highlights**

During fiscal 1988-89, the Canadian dollar Expenditures for 1988-89 were \$38,735 continued to appreciate against the U.S. million or \$848 million above the Budget plan. \$823 million of this increase is due to advance payments of 1989-90 entitlements for capital assistance to colleges, universities and school boards and for unconditional grants to municipalities.

### Deficit

The deficit for the year ended March 31, 1989 was \$1,479 million, \$65 million below the Budget estimate. Graph 8 reflects the decline of \$1,155 million in the deficit since 1987.



### Revenue

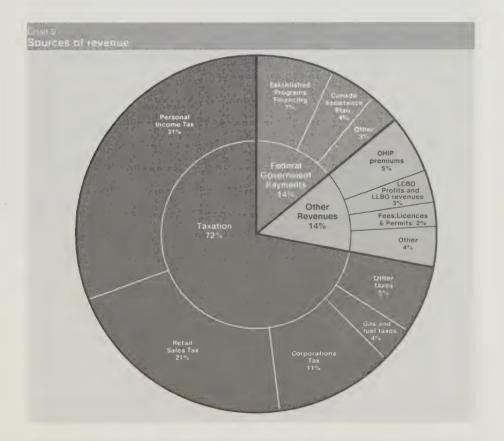
shown in Table 1.

### Taxation

Personal Income Tax of \$11,687 million was \$1,065 million above the original forecast and reflects larger than anticipated federal adjustments to current and prior years'

Revenue for 1989 was \$37,256 million. The entitlements, particularly for the 1987 tax major sources of revenue and their respective year. This increase was partially offset by a percentages are shown in Chart 9. A \$251 million decrease in federal payments comparison against the original Budget is under the Established Programs Financing arrangement.

> The exceptional strength of the housing market resulted in an increase of \$134 million in revenue from Land Transfer Tax. This increase was partially offset by lower revenues of \$106 million in Corporations Tax.



### Payments from the Government of Canada

Total payments of \$5,113 million were \$214 million below the Budget estimate.

Established Programs Financing payments forecast, partially offsetting higher payments Plan payments increased by \$37 million, year. reflecting higher Provincial social assistance spending which is cost-shared with the federal government.

### Other revenue

Non-taxation revenues were \$7 million below the original Budget plan. LCBO profits and LLBO revenues declined by \$56 million and \$16 million respectively, mainly due to lower decreased by \$251 million from the Budget consumption levels. Lottery profits increased by \$20 million primarily as a result of for Personal Income Tax. Canada Assistance increased ticket sales in the latter part of the

Performance of major revenues 1988-89 Table 1						
(\$ millions)	Act	ual	Budg	get	○  Var	iance
Taxation: Personal income tax Retail sales tax Corporations tax Other	11,687 7,775 4,223 3,312	26,997	10,622 7,814 4,329 3,098	25,863	+ 1,065 -39 -106 +214	+ 1,134
Government of Canada: Established programs financing Canada Assistance Plan Other	3,137 1,497 479	5,113	3,388 1,460 479	5,327	-251 +37	-214
Other Revenue: OHIP premiums LCBO profits and LLBO revenues Fees, licences and permits Ontario Lottery Corporation Interest on investments, etc. Other	1,745 1,044 788 485 265 819	5,146	1,738 1,116 778 465 253 803	5,153	+ 7  -72 +10 +20 +12 +16	-7
Total		37,256		36,343		+913

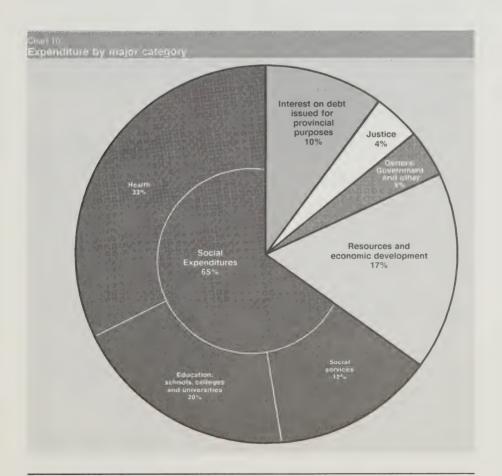
### **Expenditure and its Major Components**

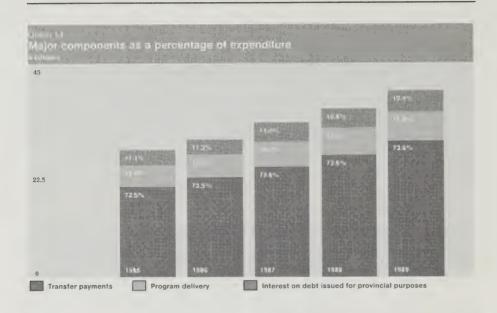
Total expenditure was \$38,735 million. Chart Transfer payments 10 shows expenditure by major category.

The major components of expenditure are transfer payments, program delivery costs and interest on debt issued for provincial purposes. Graph 11 illustrates the five year trend of these components as a percentage of total expenditure.

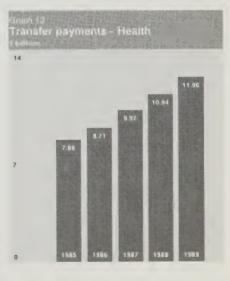
Transfer payments include grants, subsidies and assistance to persons and other government bodies. They totalled \$28,519 million, representing 73.6 per cent of expenditure.

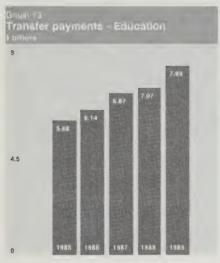
Graphs 12, 13 and 14 show the five year trend of transfer payments for health, education and social services.





- Health transfer payments of \$11.957 million included:
- \$6,087 million (51%) paid to hospitals and related facilities for operating and capital purposes;
- \$3,937 million (33%) paid to physicians and other health practitioners for services and health care provided under the Ontario Health Insurance Plan (OHIP);
- \$1,332 million (11%) paid to extended and special care facilities, ambulance and other health services; and
- \$575 million (4%) in fully subsidized prescription drugs provided to individuals 65 years of age and over.
- Education transfer payments amounted to \$7,988 million. The Province supports local school boards for primary and secondary schools, and also funds universities, colleges and other post-secondary institutions. These transfer payments include advance payments of 1989-90 entitlements for capital. Major elements were:



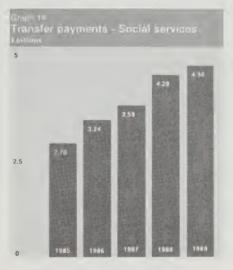


- \$4,451 million (56%) paid to local school boards for their operating and capital costs, including \$300 million in advance payments for capital entitlements pertaining to 1989-90; \$2,428 million (31%) paid to the post-secondary education sector for operating and capital costs, including \$110 million in advance payments for capital entitlements
- \$516 million (6%) paid to match the teachers' contributions to the Teachers' Superannuation and Adjustment Funds and to supplement pensions under these plans.

pertaining to 1989-90; and

- Social services transfer payments totalled \$4,899 million. These payments are made mainly by the Ministry of Community and Social Services. Major expenditures were:
- \$2,687 million (55%) paid for income maintenance to individuals requiring assistance on a long-term basis and subsidies to municipalities for their temporary assistance programs;
- \$732 million (15%) paid to support children's programs such as children's aid societies, day nurseries, mental health facilities and young offender's programs; and

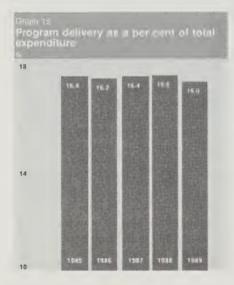
- \$572 million (12%) paid by the Ministry of Revenue, in the form of property tax grants, sales tax grants and guaranteed annual income payments, all of which benefit Ontario senior citizens.



- Transfer payments to local governments, designed to assist general municipal programs for purposes other than health, education, and social services totalled \$2,717 million, including advance payments of 1989-90 entitlements. Major elements were:
- \$1,282 million paid to municipalities in unconditional grants, which include advance payments of \$413 million;
- \$685 million paid in subsidies to municipalities for road programs; and
- \$336 million paid in capital and operating subsidies to municipalities for transit systems.

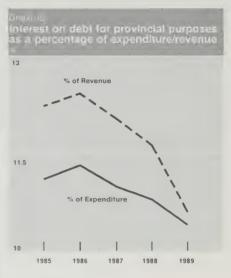
### Program delivery

Program delivery costs, consisting of salaries and benefits for public servants and other direct operating expenditures, totalled \$6,184 million or 16.0 per cent of total expenditures, compared with 16.6% last year. The decline includes the effect of constraints on salaries (2%) and direct operating expenditures (6%).



purposes

Interest costs associated with debt for provincial purposes, were \$4,032 million, or 10.4 per cent of expenditure, down from 10.8 per cent in the previous year. As a percentage of revenue, the interest costs were 10.8 per cent, down from 11.6 per cent in the previous year.



### Capital investments

The capital investments of the Province include direct capital projects such as provincial highways and the Province's share of capital spending undertaken by municipalities, hospitals, universities, school boards, other provincial organizations and joint projects with private industry.

In fiscal 1988-89, these investments Interest on debt issued for provincial amounted to \$3,268 million up from \$2,623 million the year before.

### Other Accounts

and investment activities and special purpose accounts. These transactions resulted in net inflows of \$1,429 million to the Consolidated Special purpose accounts Revenue Fund, \$358 million over the 1988-89 Budget estimate.

### Pension and related benefit funds

These represent employer and employee contributions and interest earnings of the funds held mainly for government employees, members of the Legislature, provincial judges and the Superannuation Adjustment Fund. Net inflows of \$906 million, consisted of deposits and interest earnings less payments.

### Lending and investment

Loans and advances to, and investments in various Crown agencies and local governments amounted to \$106 million.

Other accounts consist of the administration Repayments of loans and advances were \$202 of pension and related benefit funds, lending million, thereby resulting in a net inflow of \$96 million.

Net inflows from these accounts totalled \$427 million and consisted mainly of funds deposited by the Province of Ontario Savings Office. The Savings Office has 21 branches in Ontario. They offer interest-bearing chequing deposit accounts and guaranteed investment certificates. All deposits and certificates are fully guaranteed by the Province. Funds, which are surplus to the day-to-day operating needs, are deposited with the Treasurer of Ontario. The balance on deposit at year end was \$1,450 million, an increase of \$377 million from the previous year, which is largely attributable to the introduction of guaranteed investment certificates during 1988-89.

Other accounts (net)		Table 2
(\$ millions)	Actual 1988-89	Actual 1987-88
Pension and related benefit funds - net payments into funds 885	906	824
Loans, advances and investments in various  Crown agencies and local governments - net repayments 54	96	226
Special purpose accounts - net increase in funds held 132	427	153
Total (net) 1,071	1,429	1,203

### Debt

### Ontario's Debt

Ontario's debt of \$39,014 million includes all obligations of the Province issued for provincial purposes. It comprises debentures, notes and treasury bills of \$29,522 million, pension and related benefit fund liabilities of \$7,887 million and \$1,605 million of other special purpose accounts, mainly deposits from the Province of Ontario Savings Office.

As a result of continued growth of the Ontario economy, and the decline of the deficit as well as debt retirements, Ontario's debt as a percentage of Gross Domestic Product declined to 15.8% in 1988-89 from 16.5% the previous year.

As illustrated on Chart 17, the Province has borrowed mainly from the Teachers' Superannuation Fund (TSF) and Canada Pension Plan (CPP).

The Teachers' Superannuation Commission administers the pension plan of the teachers in Ontario and is currently required to invest funds in provincial securities. Legislation has been introduced which will allow an arm's length Board, responsible for administering the plan and the fund, to invest in market securities. In 1988-89, the Province borrowed \$1,620 million from the TSF which brought the total Provincial debt to the Fund to \$13,093 million.

The amount of CPP funds offered to Ontario is based on the proportion of total contributions made by Ontario residents to the plan. In 1988-89 Ontario did not borrow from CPP for its own purposes and repaid \$412 million, thus reducing Ontario's own purpose CPP debt to \$13,981 million.

### Ontario Hydro

The Province also borrows on behalf of Ontario Hydro in the United States and from Canada Pension Plan. The proceeds

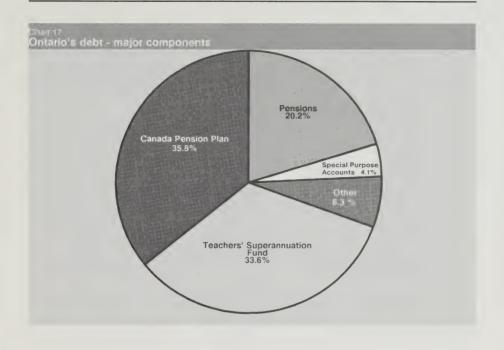
advanced to Ontario Hydro are secured by bonds bearing like terms and conditions to the securities issued by Ontario. Of the \$7,789 million outstanding at March 31, 1989, \$5,692 million (U.S. \$4,770 million) has been borrowed in the United States and \$2,097 million from CPP. In addition, securities issued by Ontario Hydro are guaranteed by the Province. As at March 31, 1989 they represented a contingent liability of \$19,259 million.

### Ontario's Consolidated Public Sector Debt

A broad measure of public sector debt in Ontario is presented in Table 3 and includes:

- Ontario's debt issued for provincial purposes;
- Ontario's liabilities to pensions and special purpose accounts;
- Ontario's debt issued on behalf of Ontario Hydro;
- obligations issued by Ontario Hydro and guaranteed by the Province; and
- an estimate of other public sector debt (in the form of bonds, debentures, and notes excluding sinking funds and own holdings) incurred by provincial agencies and by the local government, university and hospital sectors.

The above approach to debt highlights the effects of Ontario's policy of centralized public sector financing through which the Province's own financial base has been used to substantially fund the local government sector and its agencies. The Province carefully controls the use of the provincial guarantee, restricting it primarily to borrowings by Ontario Hydro.



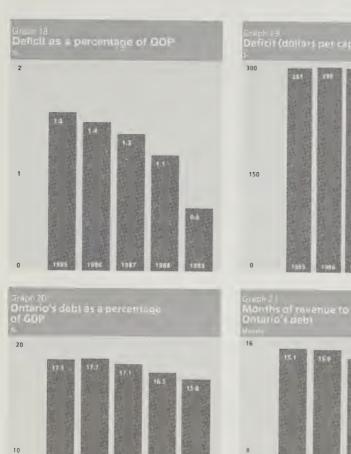
Ontario's Consolidated Public Sector Debt		Tal	ole 3
March 31 (Smillions)	1989	1988	
Ontario's Debt:			
Debt incurred for Provincial purposes	29,522	28	3,822
Other:			
- Pensions and related benefit funds	7,887	6,981	
- Special Purpose Accounts	1,605 9,492	1,178 _ 8	3,159
	39,014	36	,981
Ontario Hydro Debt:			
Debt incurred by the Province	7,789	7	7,541
Debt guaranteed by the Province*	19,259	<u>17</u>	7,487
	27,048	25	5,028
Other Public Sector Debt (estimated)	3,987	4	,025
Total Ontario's Consolidated Public Sector Debt	70,049	66	,034

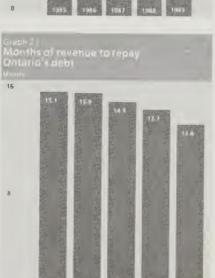
<sup>\*</sup> The guaranteed debt excludes bank loans and is net of debt accumulated by Ontario Hydro for early retirement, which in 1989 was \$1,075 million (1988 \$1,062 million).

### **Selected Financial and Economic Statistics**

March 31 (\$ millions)	88-89	87-88	86-87	85-86	84-85
Revenue	37,256	32,453	29,544	26,240	23,893
Expenditure	38,735	34,942	32,178	28,854	26,452
Deficit	1,479	2,489	2,634	2,614	2,559
Other accounts (net)	1,429	1,203	1,286	1,009	857
Net cash requirements	50	1,286	1,348	1,605	1,702
Provincial debt transactions (net)	700	901	1,194	2,102	2,090
Ontario Hydro debt transactions (net)	248	(245)	(403)	(17)	719
Ontario's debt/liabilities  Debt incurred for					
- Provincial purposes	29,522	28,822	27,921	26,695	24,593
Other	9,492	8,159	7,182	6,209	5,448
Ontario's debt/liabilities	39,014	36,981	35,103	32,904	30,041
Ontario Hydro - debt incurred by the Province	7,789	7,541	7,786	8,189	8,206
Contingent liabilities (mainly Ontario Hydro)	20,559	18,595	17,603	15,963	14,220
Gross domestic product at market prices <sup>1</sup>	246,558	224,674	205,247	185,944	171,499
Personal income (Ontario) per capita <sup>1</sup> (June 1 population) (in dollars)	21,596	20,200	18,792	17,623	16,422
Ontario's debt/GDP (%)	15.8	16.5	17.1	17.7	17.5

<sup>&</sup>lt;sup>1</sup> Gross domestic product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.



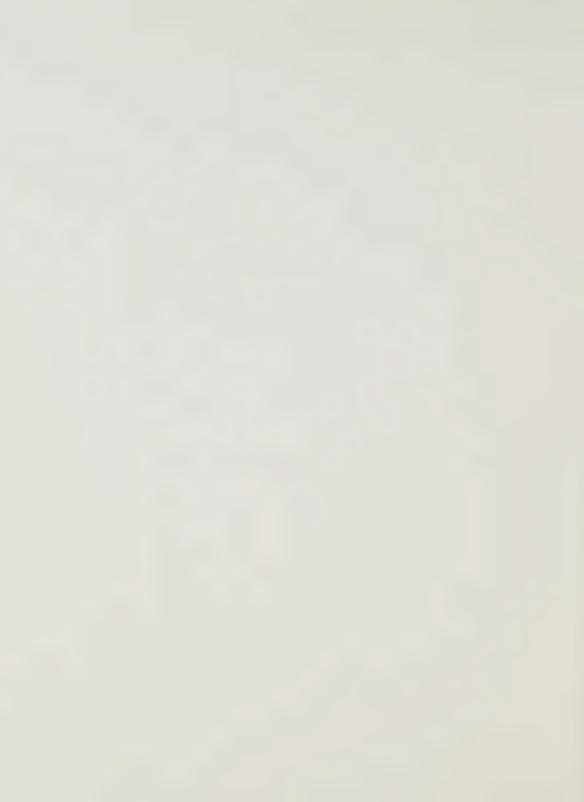




### 1989 Financial Statements

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## **Summary of Significant Accounting Policies**

#### Reporting entity

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed to provide an accounting. The Province's financial transactions are of the financial resources appropriated by the recorded under four categories: Ontario Legislature. The policies and practices followed by the Province, are designed to accommodate reporting to the Legislature and, accordingly, the financial This includes revenue raised through out as Consolidated Revenue Fund cash permits, payments from the federal corporations, boards and commissions are shared-cost programs, and income from reported only to the extent to which their investments. operations have been financed from, or have contributed to, the Consolidated Revenue Expenditures Fund

#### **Basis of accounting**

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended and for certain non-cash transactions. Cash inflows, however, are closed at March 31 for cash received.

Loans and advances are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of their underlying security has diminished, or when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of \$1.

In accordance with legislation, the pension and related benefit funds are liabilities within These are the lending and investment employee and government's matching agencies and local governments. contributions, interest on the fund balances and any unfunded liability amortization

amounts. The funds' balances are reduced by payments to pensioners.

#### Revenue

transactions of Government ministries are set taxation, premiums, fees, licences and inflows and outflows. Activities of Crown government under fiscal arrangements and

Expenditures on government programs include transfer payments to individuals, local governments and institutions, interest on debt issued for provincial purposes, salaries and employee benefits, payments for goods and services, and the acquisition and construction of fixed assets. Fixed asset costs are charged to expenditure when acquired or constructed since they are not considered to differ from any other service to the public.

#### Other accounts

Other accounts consist of the lending, investment and special account administration activities of the Government, including loans, advances and investments, pension and related benefit funds, and special purpose These accounts are assets or accounts. liabilities.

Loans, advances and investments

the Consolidated Revenue Fund and include activities in various Crown corporations,

#### Pension and related benefit funds

for government employees, members of the parties on the Consolidated Revenue Fund. Legislature and Provincial judges comprise employee and employer contributions, interest earnings, and amortization payments less payments made.

#### Special purpose accounts

Special purpose accounts are generally established by legislation and administered by the Province. Deposits with the Province of Ontario Savings Office, the Pits and Ouarries Control Fund and the Motor Vehicle Accident Claims Fund are major examples.

#### Financing

Financing consists of debt transactions and the net change in cash and temporary investments.

Debt transactions are the borrowing and repayment activities for the Province's own purposes.

#### Financial assets, accumulated deficit and liabilities

#### Financial assets

Consolidated Revenue Fund on other parties and arise from cash transactions.

#### Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and its financial assets. The year-to-year change in the accumulated deficit is the amount by which expenditures are greater or less than revenues.

#### Liabilities

Pension and related benefit funds which are Liabilities are established claims by other

Debt incurred for provincial purposes comprises debentures, notes and treasury bills which are recorded at face value. general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this

Other liabilities include pension and related benefit funds, deposits with the Province of Ontario Savings Office and other special purpose accounts.

#### Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown. Contingent liabilities denominated in foreign currencies are translated to Canadian dollars at the year-end rates of exchange.

#### Ontario Hydro

Advances to, and debt incurred for, Ontario Hydro relate to amounts borrowed on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for Ontario Financial assets are claims by the Hydro bonds with like terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan, they are classified separately. Both the advances and debt incurred are stated in Canadian dollars using the year-end rate of exchange.

## **Statement of Financial Transactions**

Province of Ontario						
For the year ended March 31, 1989 (\$ millions)	Budget 1989	Actual 1989	Actual 1988	100 mg		
Revenue	36,343	37,256	32,453			
Expenditure	37,887	38,735	34,942			
Deficit	1,544	1,479	2,489			
Other accounts (net)						
Pension and related benefit funds	885	906	824			
Loans, advances and investments	54	96	226			
Special purpose accounts	132	427	153			
Total other accounts	1,071	1,429	1,203			
Net cash requirements	473	50	1,286			
Financing						
Debt transactions Proceeds of loans net of retirements	755	700	901			
(Increase)/decrease in cash and temporary investments	(282)	(650)	385			
Total financing	<u>473</u>	50				

## **Statement of Revenue**

Province of Ontario				
For the year ended March 31, 1989	Budget	Actual	Actual	
(\$ millions)	1989	1989	1988	
Taxation				
Personal income tax	10,622	11,687	9,859	
Retail sales tax	7,814	7,775	6,305	
Corporations tax	4,329	4,223	3,600	
Gasoline tax	1,214	1,230	1,035	
Tobacco tax	776	750	639	
Land transfer tax	500	634	471	
Fuel tax	325	309	291	
Mining profits tax	45	135	13	
Reciprocal taxation	93	109	91	
Race tracks tax	80	79	75	
Public utilities income tax	50	54	90	
Other	15	12	11	
	25,863	26,997	22,480	
Other revenue				
Ontario Health Insurance Plan premiums	1,738	1,745	1,723	
Profits from Crown corporations and boards	,		ŕ	
Liquor Control Board of Ontario	701	645	651	
Ontario Lottery Corporation	465	485	470	
Vehicle registration fees	513	509	506	
Liquor Licence Board of Ontario revenues	415	399	351	
Other fees and licences	265	279	249	
Interest on investments, loans and advances	253	265	295	
Royalties	208	187	177	
Utility service charges	120	137	145	
Sales and rentals	110	131	96	
Fines and penalties	125	113	104	
Miscellaneous	240	251	222	
Miscentificous	5,153	5.146	4,989	
Government of Canada	5,155	3,140	7,707	
Established Programs Financing	2,925	2,674	2,773	
Extended Health Care Services	463	463	436	
Canada Assistance Plan	1.460	1,497	1,305	
	1,400			
National Training Agreement	57	114	131	
Bilingualism Development		48	50	
Young Offenders	64	56	64	
Vocational Rehabilitation	32	30	33	
Other	224	231	192	
	5,327	5,113	4,984	
Total revenue	36,343	37.256	32,453	

## **Statement of Expenditure**

Province of Onta	rio	Memorial and the second	V 21 1 4 4 4 4 1 1 1 1 1 1 1 1 1 1 1 1 1
For the year ended March 31, 1989 (\$ millions)	Budget 1989	Actual 1989	Actual 1988
Ministry			
Agriculture and Food	567	511	566
Attorney General	405	415	382
Office Responsible for Native Affairs	5	3	2
Citizenship	46	46	39
Colleges and Universities	2,583	2,668	2,391
Community and Social Services	4,308	4,312	3,775
Consumer and Commercial Relations	152	146	135
Correctional Services	423	410	402
Culture and Communications	253	256	227
Education	4,799	5,111	4,447
Energy	45	38	43
Environment	426	415	385
Financial Institutions	36	37	31
Government Services	643	620	542
Health	12,689	12,565	11,529
Housing	468	421	333
Industry, Trade and Technology	171	156	173
Technology Fund	100	62	20
Intergovernmental Affairs	9	9	9
Labour	126	119	107
Office Responsible For Women's Issues	18	16	17
Legislative and Executive Offices	12	11	10
Management Board of Cabinet	40	38	37
Municipal Affairs	976	1,383	922
Natural Resources	558	577	552
Northern Development and Mines	305	291	239
Office for Disabled Persons	7	7	6
Office Responsible for Senior Citizens Affairs	9	6	5
Revenue	830	799	786
Skills Development	408	402	385
Solicitor General	450	447	405
Tourism and Recreation	184	177	169
Transportation	2,078	2,067	1,914
Treasury and Economics	29	28	28
Economic Development Projects	50	41	45
Interest on debt issued for provincial purposes	4,080	4,032	3,771
Other	99	93	113
Expenditure savings and constraints (note 11)	(500)	The same of	
Total expenditure (note 9)	37,887	38,735	34,942

## **Statement of Other Accounts**

Province of Onta			
For the year ended March 31, 1989 (\$ millions)	Budget 1989	Actual 1989	Actua 1988
Pension and related benefit funds	1989	1707	198
		1000	
DEPOSITS TO:	0.70	Original States	70
Public Service Superannuation Fund Superannuation Adjustment Fund	878 378	873 387	78 34
Other	30	26	2
Other		83. 3	
	_1,286	1,286	1,15
PAYMENTS FROM:		We want	
Public Service Superannuation Fund	237	231	20
Superannuation Adjustment Fund	153	138	11
Other	11	11	
	401	380	33
NT . 1		\$\$ \$ \$ \$ \$ \$ \$	
Net deposits to pension and related benefit funds	885	906	82
Loans, advances and investments			
REPAYMENTS BY:		EF INTE	
Corporations, boards and commissions			
Development Corporations	45	66	7
Other	8	14	15
Local governments	33	43	4
School boards	40	40	4
Water treatment and waste control facilities	25	26	3
Other loans, advances and investments	24	13	2
	175	202	37
PAYMENTS TO:			
Corporations, boards and commissions		100	
Development Corporations	75	67	10
Water treatment and waste control facilities	23	24	2
Local governments	22	15	2
Other loans, advances and investments	1	4	
	121	106	14
Net repayments of loans, advances			
and investments	54	96	22

# Statement of Other Accounts (continued)

Province of	Ontario		
For the year ended March 31, 1989 (\$ millions)	Budget 1989	Actual 1989	Actual 1988
Special purpose accounts (net)		100	
Province of Ontario Savings Office	120	377	161
Other	12	50	(8)
Net deposits to special purpose accounts	132	427	153
Total other accounts (net)	1,071	1,429	1,203

See accompanying Summary of significant accounting policies and Notes to the financial statements.

## **Statement of Debt Transactions**

Province of Ontario					
For the year ended March 31, 1989 (\$ millions)	Budget 1989	Actual 1989	Actual 1988		
Proceeds of loans		1000000			
Teachers' Superannuation Fund	1,675	1,620	1,620		
Canada Pension Plan Investment Fund			42		
Total proceeds of loans	1,675	1,620	1,662		
Retirements of loans					
Teachers' Superannuation Fund			176		
Canada Pension Plan Investment Fund	420	412	376		
Other debentures and notes	500	508	209		
Total retirements of loans	920	920	761		
Debt transactions (net)	755	700	901		

#### **Statement of Financial Position**

Province of Ontario			
As at March 31, 1989 (\$ millions)	1989	1988	
Financial assets	Bar		
Cash and temporary investments (note 1)	2,244	1,594	
Investments in water treatment and waste control facilities (at cost less recoveries) (note 2)	466	468	
Loans to local governments	380	448	
Advances to corporations, boards and commissions (note 3)	370	383	
Other loans	55	68	
	3,515	2,961	
Advances to Ontario Hydro, secured by bonds (note 4)	7,789	7,541	
Total financial assets	11,304	10,502	
Accumulated deficit	35,499	34,020	
	46,803	44,522	
Liabilities	\$ \$ ~ S		
Debt incurred for provincial purposes (note 5)	29,522	28,822	
Pension and related benefit funds (note 6)	7,887	6,981	
Deposits with the Province of Ontario Savings Office	1,450	1,073	
Special purpose accounts	155	105	
Total liabilities for provincial purposes	39,014	36,981	
Debt incurred for Ontario Hydro (note 5)	7,789	7,541	
	46,803	44,522	
Contingent liabilities (note 8)	20,559	18,595	

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1989 financial statements of the Province of Ontario, including the notes are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 20, 1989.

M. MOGFORD, Deputy Treasurer of Ontario and Deputy Minister of Economics
C. Mogyanali

C. MOSZYNSKI, C.G.A., Acting Director, Financial Information and Accounting Policy Branch

#### **Notes to the Financial Statements**

(all tables in millions of dollars)

#### 1. Cash and temporary investments

Temporary investments are mainly marketable, short-term securities issued or guaranteed by Canadian chartered banks, provincial and federal governments and are recorded at cost.

#### 2. Investments in water treatment and waste control facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering \$393 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to \$26 million at March 31, 1989 (1988 \$36 million), was applied as a reduction of the investment account.

#### 3. Advances to corporations, boards and commissions

	1989	1988
Development Corporations	\$290	\$290
Other	80	93
	\$370	\$383

The Province advances funds for the lending activities carried out by the Development Corporations. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to \$29 million in 1989 (1988 \$19 million). Advances to the Corporations are reduced by their loan forgiveness and write-offs, amounting to \$13 million in 1989 (1988 \$23 million).

#### 4. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1989, the bonds consist of U.S. \$4,770 million (1988 U.S. \$4,888 million), and Canadian \$2,097 million (1988 Canadian \$1,508 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at \$5,692 million (1988 \$6,033 million), the Canadian dollar equivalent using the exchange rate in effect at year-end. Transactions during the year are as follows:

	1989	1988
Proceeds of loans	\$589	\$389
Retirements of loans	(145)	(280)
Net proceeds/retirements	444	109
Foreign exchange - (gain)/loss	(196)	(354)
Net increase/(decrease) in debt incurred for Ontario		
Hydro purposes		(245)
Related advances, interest and recoveries		
Advances to Ontario Hydro	589	389
Interest	838	884
Recovery of interest and loan retirements	(983)	(1,164)
Net advances	444	109
Foreign exchange - (gain)/loss	(196)	(354)
Net related advances, interest, foreign exchange - (gain)/loss and recoveries	<u>\$248</u>	<u>\$(245)</u>

#### 5. Debt

Debentures, notes and treasury bills for provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of repayment/maturity in the following tables.

	For P	rovincial p	urposes	
	<u>1989</u>	•	19	988
Years of repayment/ maturity March 31		Weighted average interest rate %		Weighted average interest rate %
1989 1990 1991 1992 1993 1994	\$1,105 485 508 1,001 942		\$1,570 454 486 508 1,001	_
1-5 years 6-10 years 11-15 years 16-20 years 21-25 years 26-30 years 31-35 years	4,041 5,656 8,537 9,276 1,931 71 10 \$29,522	8.05 9.04 11.87 12.15 10.88 9.94 10.32 10.82	4,019 5,148 7,690 10,097 1,772 74 22 \$28,822	7.82 8.68 11.36 12.28 10.78 9.82 10.22
Payable to:			1989	1988
Other Teachers' Superant The Ontario Munic	Plan Investment F nuation Fund cipal Employees	Fund	\$13,981 333 13,093	\$14,393 342 11,473
Retirement Fund Public Investors	a		1,293 822 \$29,522	1,293 1,321 \$28,822

For	Ontario	Hydro
-----	---------	-------

		198	9		<u>198</u>	38
Years of repayment/ maturity		United		Weighted average interest		Weighted average interest
March 31	Canadian	States	Total	rate %	Total	rate %
1990	\$	\$239	\$239		\$247	
1991		52	52		54	
1992		354	354		486	
1993		232	232		240	
1994						
1-5 years		877	877	13.40	1,027	13.54
6-10 years		605	605	9.52	485	10.19
11-15 years	1,000	666	1,666	12.12	1,613	11.89
16-20 years	1,097	2,297	3,394	9.35	2,286	8.91
21-25 years		1,247	1,247	13.52	2,010	11.96
26-30 years					120	11.75
	\$2,097	\$5,692	<u>\$7,789</u>	11.06	\$7,541	11.12

Payable to:	<u>1989</u>	1988
Minister of Finance of Canada	\$2,097	\$1,508
Canada Pension Plan Investment Fund	5,692	6.033
Public Investors	\$7,789	\$7,541

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is \$196 million (\$354 million in 1988).

As explained in Note 4, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

#### 6. Pension and related benefit funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related benefit funds and accounts. The amounts recorded by the Province represent all the assets of these plans.

	<u>1989</u>	1988
Public Service Superannuation Fund	\$5,787	\$5,145
Superannuation Adjustment Fund	1,989	1,740
Legislative Assembly Retirement Allowances		
Account	42	39
Provincial Judges Benefits Fund	51	44
Other	18	13
	<u>\$7,887</u>	\$6,981

The latest actuarial report of the Public Service Superannuation Fund as at December 31, 1985, showed a surplus of \$109.9 million.

The Superannuation Adjustment Fund provides annual inflation adjustments to recipients of pensions payable from the Public Service Superannuation Plan, the Teachers' Superannuation Plan and the Retirement Pension Plan of the Ryerson Polytechnical Institute in accordance with the provisions of the Superannuation Adjustment Benefits Act. Separate accounts are maintained for each pension plan. Members include deferred annuitants as well as those in receipt of a pension.

The superannuation adjustment benefits are not fully funded as permitted by the Pension Benefits Act of 1987. In order to ensure that benefits will be fully funded the government introduced legislation in June 1989, which, if passed, will:

- combine the teachers' and public servants' adjustment funds with the respective basic funds;
- increase the matching contribution rates by one percent of salary to cover future benefits earned;
- commit the government to pay for the past deficits in the combined funds;
- amortize the past deficits with payments over 40 years that are based upon a constant percentage of payroll;
- require that any future deficiencies, determined by subsequent actuarial valuations, be amortized as
  prescribed by the Pension Benefits Act; and
- permit fund investments in market securities under the responsibility of arm's length boards.

A preliminary estimate on an actuarial basis, indicates that past deficits of the combined pension funds are \$5.7 billion (\$4.0 billion for the teachers' pension plan and \$1.7 billion for the public service pension plan).

An actuarial review of the Legislative Assembly Retirement Allowances Accounts as at March 31, 1988, showed a deficit of \$12,109. The Province made this payment as at March 31, 1989.

#### 7. Teachers' Superannuation Fund

The Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund, which is administered by the Teachers' Superannuation Commission. Funds not required to pay benefits, are invested in the debentures of the Province in accordance with Section 72 of the Teachers' Superannuation Act. The Province is also committed to paying any deficiency in the Fund. As described in Note 6, the Province introduced legislation in June 1989 to combine the Fund with the respective Superannuation Adjustment Fund.

The latest actuarial report as at December 31, 1987 showed a surplus of \$33 million.

#### 8. Contingent liabilities

	<u>1989</u>	1988
Obligations guaranteed by the Province:		
Debentures/bonds and notes		
Ontario Hydro	\$19,259	\$17,487
Loans guaranteed	852	577
Other	448	531
	\$20,559	<u>\$18,595</u>

#### Claims against the Crown:

There are claims outstanding against the Crown of which eight are for amounts over \$50 million each, arising from legal action, either in progress or threatened, in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, settlements resulting therefrom will be recorded as expenditures when paid.

#### 9. Expenditure by standard account classification

	1989	<u>1988</u>
Salaries and wages	\$ 3,093	\$ 2,919
Employee benefits	512	489
Transportation and communication	329	314
Services	1,396	1,342
Supplies and equipment	687	651
Acquisition/construction of physical assets	507	436
Transfer payments	28,564	25,410
Interest on debt issued for provincial purposes	4,032	3,771
Other transactions	149	169
Less: recoveries	(534)	(559)
Total expenditure	\$38,735	<u>\$34,942</u>

#### 10. Change in accounting policy

As described in the Summary of Significant Accounting Policies, cash inflows are now closed at March 31 for cash received rather than for cash received and in transit as reported in previous years. The impact of this change on revenue reported is a decrease of \$123 million in 1988-89.

#### 11. Budget figures

The budget figures in the financial statements are based on data from the 1988 Ontario Budget which was tabled by the Treasurer of Ontario in the Legislative Assembly on April 20, 1988.

The Expenditure savings and constraints figure in the Statement of Expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

#### 12. Comparative figures

The 1988 comparative figures have been reclassified where necessary to conform with the 1989 financial statement presentation.

## **Provincial Auditor's Opinion**

I have examined the statement of financial position of the Province of Ontario as at March 31, 1989 and the statements of financial transactions, revenue, expenditure, other accounts and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, except for the change in accounting for cash inflows as explained in Note 10 to the financial statements, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph indicate that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than \$75 million.

Sat. anche

D.F. Archer, F.C.A., Provincial Auditor

Toronto, Ontario July 20, 1989.

#### **Sources of Additional Information**

#### The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. The background and implications of any new tax proposals are contained in the Budget paper, which includes the Budget Statement, Budget measures, the fiscal plan and other information. Copies may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

#### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Treasurer. The Estimates outline the spending plans of each Ministry that the Legislative Assembly will be asked to approve in the form of a Supply Act. Copies of the Estimates may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

#### The Public Accounts of Ontario

The Public Accounts of Ontario, the government's annual financial report required by Section 13 of the Ministry of Treasury and Economics Act for the fiscal year ended March 31, is tabled in the Legislature usually in October of each year. They consist of three volumes:

- · Volume 1 contains the financial statements of the Province and schedules of supporting information.
- · Volume 2 contains the financial statements of selected provincial crown corporations, boards and commissions.
- Volume 3 contains the details of expenditure.

The Public Accounts are available from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario

Prices are: Volume 1, \$4; Volume 2, \$3; Volume 3, \$2.50.

#### **Ontario Finances**

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during the quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

#### **Ontario Economic Accounts**

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Office of Economic Policy, 5th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.

#### Demographic Bulletin

This bulletin provides population projections and estimates for Ontario and its counties, districts and regional municipalities. It also contains statistics on the components of population change in Ontario and is produced intermittently during the year. Copies may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.





## PROVINCE OF ONTARIO



1990

# Financial Report





**ROBERT NIXON • TREASURER OF ONTARIO** 



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On peut obtenir des exemplaires gratuits de ce rapport en français ou en anglais en en faisant la demande à la librairie du gouvernement de l'Ontario, Publications Ontario, 880, rue Bay à Toronto.
On peut aussi écrire à Publications Ontario 5e étage 880, rue Bay, Toronto (Ontario) M7A 1N8. Téléphone: 326-5300. Interurbain sans frais: 1-800-668-9038.

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Adresser les demandes de renseignements généraux sur le Rapport financier au : Ministère du Trésor et de l'Économie Bureau du Trésor Édifice Frost nord, 2º étage Toronto (Ontario) M7A 1Y7 (416) 965-5273/965-1731

Copies of the report in English or French are available free from the Ontario government bookstore, Publications Ontario, 880 Bay St. Toronto.
Out-of-town customers write to Publications Ontario, 5th Floor, 880 Bay St., Toronto, Ontario, M7A 1N8. Telephone 326-5300. Toll free long distance 1-800-668-9938.

ISSN 0318-4005.

General inquiries regarding the Financial Report should be directed to: Ministry of Treasury and Economics Office of the Treasury Frost Building North, 2nd Floor Toronto, Ontario M7A 1Y7 (416) 965-5273/965-1731



#### **Treasurer's Statement**

I am pleased to present the 1990 Financial Report of the Province of Ontario for the fiscal year ended March 31, 1990.

The report highlights the major aspects of Ontario's finances, and presents summarized financial statements of the Province for the fiscal year. The 1989-90 Public Accounts, which will be submitted to the Ontario Legislature later this year, will provide more detailed financial information.

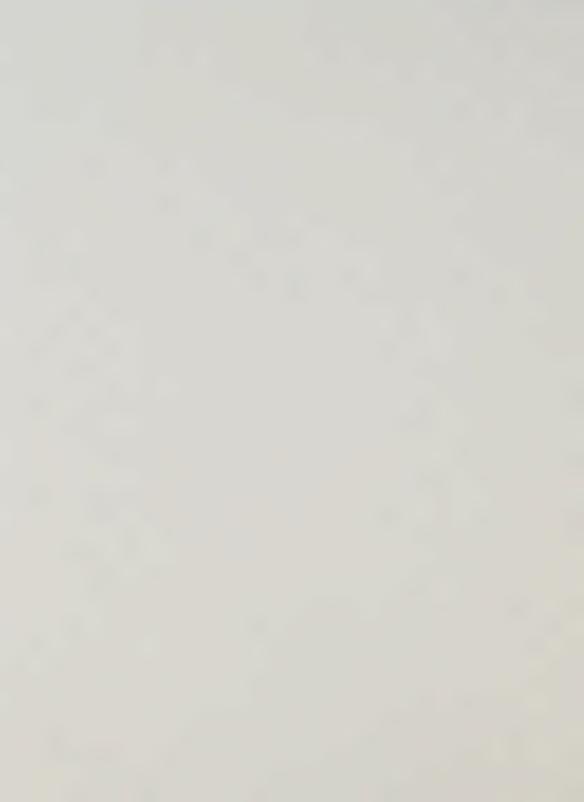
For the first time in 20 years, the Province balanced the budget and achieved a surplus of \$90 million.

Comments or questions on the contents of this Report are welcomed. You are invited to send them to the Office of the Treasury, Ministry of Treasury and Economics, 2nd Floor, Frost Building North, Queen's Park, Toronto, Ontario M7A 1Y7, telephone (416) 965-5273.

Robert Nixon Treasurer of Ontario

Toronto, August 1990





#### The Year in Review

Highlights (\$ millions)	1989-90	1988-89
Revenue	41,692	37,256
Expenditure	41,602	38,735
Surplus/(Deficit)	90	(1,479)
Financing (net)	242	2,033
Gross domestic product*	269,552	247,969

<sup>\*</sup> Calculated on a calendar year basis (subject to subsequent adjustments as federal statistics become available).

Graph 1

0

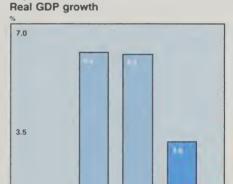
Years

#### Ontario's economy

In 1989, Ontario's economy continued to expand, although at a more moderate pace than in recent years. Business investment lead growth in 1989. Consumer spending and housing also contributed to the expansion. Recent trends in provincial economic indicators are set out in the following graphs and commentaries.

#### Real gross domestic product (GDP) growth

Real GDP increased by 2.8 per cent in 1989. Real GDP measures the value of all goods and services produced in the economy, adjusted for inflation. Real GDP growth is a key indicator of the health of the provincial economy.

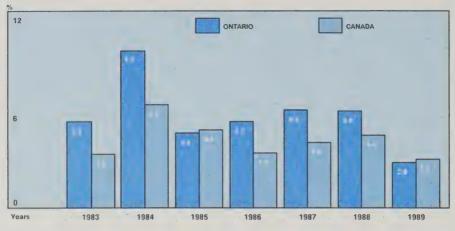


1987

1988

1989

Graph 2
Comparative growth in real GDP - Ontario & Canada 1983 to 1989



#### Growth in real GDP

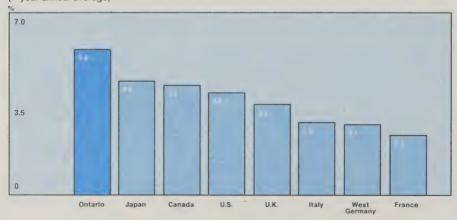
Real GDP in Ontario has risen by more than 46.7 per cent over the past seven years. Growth in Ontario has generally outpaced growth in the rest of Canada over this period.

International comparison of real output growth

Since 1983, real output growth in Ontario outpaced all the major industrial nations, growing at an average annual rate of 5.6 per cent.

Graph 3

Comparative real output growth, 1983-1989, (international) (7 year annual average)



#### Provincial rate of inflation

The rate of inflation in Ontario, as measured by the Consumer Price Index, averaged 5 per cent over the 1983 to 1989 period. In 1989, the inflation rate rose to 5.8 per cent, primarily as a result of increased federal sales taxes, with higher unit labour costs and oil prices also contributing to the change.

#### Employment gains

Ontario's strong economic growth has led to healthy gains in employment. In 1989, employment increased by 87,000.

#### Unemployment rate

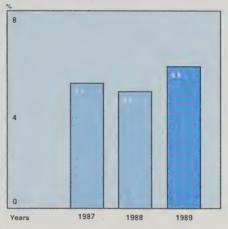
The average unemployment rate increased slightly to 5.1 per cent in 1989 from 5.0 per cent in 1988.

#### Interest rates

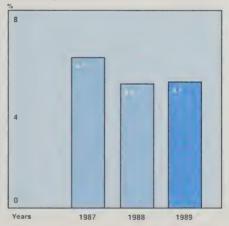
Interest rates were substantially higher during the fiscal year 1989-90 than in the previous year. The rise in short term interest rates was particularly pronounced as the Bank of Canada pursued a tight monetary policy.

In fiscal year 1989-90, the Canadian dollar averaged 2.1 cents (U.S.) above its previous fiscal year level, largely due to a rise in Canadian interest rates relative to U.S. rates.

Graph 4
Provincial inflation rate



Graph 5
Unemployment rate



#### Revenue highlights

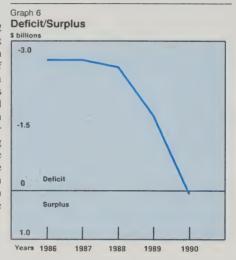
Revenues reached \$41,692 million in 1989-90. Ontario ended its fiscal year with a surplus of forecast. Almost all of this increase can be projected in the 1989 Budget. current and prior years.

#### **Expenditure** highlights

Expenditures for 1989-90 were \$41,602 million or \$312 million above the Budget plan. Expenditure increases of \$738 million were partially offset by underspending of \$426 million. Increases included \$334 million in advance payments of 1990-91 entitlements to hospitals, and \$140 million of unfunded liability instalments to the Teachers' Pension Fund. In addition, \$264 million was paid for other government programs, including additional requirements for income maintenance, health capital and forest fire fighting. The underspending of \$426 million was primarily in the Ontario Health Insurance Plan (OHIP) and Home Care programs.

#### Surplus

an increase of \$979 million above the Budget \$90 million instead of the \$577 million deficit attributed to in-year adjustments to the reflects the movement to a \$90 million federal transfer of personal income taxes for surplus position from a deficit of \$2.614 million in 1986.



#### Revenue

in Table 1.

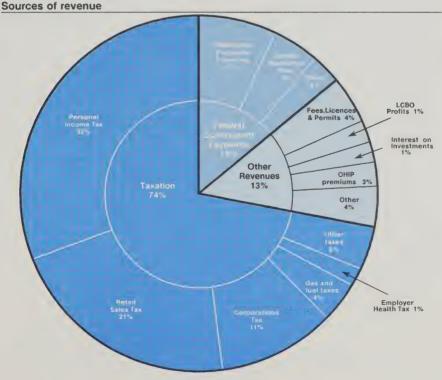
#### Taxation

Personal Income Tax of \$13,518 million was \$882 million above the original forecast and reflects larger than anticipated federal adjustments to current and prior years' entitlements.

A higher than anticipated level of remittances to 1990-91. consumption resulted in an increase of

Revenue for 1989-90 was \$41,692 million. \$124 million in revenue from Tobacco Tax. The major sources of revenue and their Higher than expected average housing prices respective percentages are shown in Chart 7, and policy changes resulted in an increase of A comparison to the original Budget is shown \$69 million in revenue from Land Transfer Tax, and higher profits led to an increase of \$47 million in Mining Tax. These increases were offset by lower than expected revenues of \$130 million in Retail Sales Tax, \$107 million in Corporations Tax, and \$72 million in Employer Health Tax due to the decision to allow small businesses to remit quarterly and deferment of federal government

Chart 7



#### Payments from the Government of Canada

\$105 million below the Budget estimate.

to limit contributions to the 1988-89 levels. Penalties. Payments under the Crop Insurance Agreement declined by \$19 million.

#### Other revenue

Non-taxation revenues were \$279 million Total payments of \$5,364 million were above the original Budget plan, mainly due to a \$202 million increase from interest on Established Programs Financing payments investments resulting from higher than decreased by \$61 million from the Budget anticipated liquid reserves and interest rate forecast, partially offsetting higher payments levels. OHIP premiums, Liquor Control for Personal Income Tax. Canada Assistance Board of Ontario (LCBO) profits and Plan payments increased by \$7 million, revenue from Vehicle registration and Driver reflecting higher provincial social assistance Licence fees increased by \$93 million, \$32 spending which is cost-shared with the federal million and \$27 million respectively. These government. Payments under the Young were offset by a decrease of \$23 million in Offenders Act were \$22 million below Liquor Licence Board of Ontario (LLBO) forecast due to a federal government decision revenues, and \$67 million in Fines and

Performance of major revenues 1	989-90		41.	te Comment	Table 1
(\$ millions)	Act	ual	Bud	get	Variance
Taxation: Personal income tax Retail sales tax Corporations tax Employer health tax Other	13,518 8,549 4,720 477 3,751	31,015	12,636 8,679 4,827 549 3,519	-1 -1	382 330 107 -72 232 + 805
Government of Canada: Established Programs Financing Canada Assistance Plan Other	3,107 1,746 511	5,364	3,168 1,739 562		-61 + 7 -51 -105
Other Revenue: OHIP premiums LCBO profits and LLBO revenues Fees, licences and permits Ontario Lottery Corporation Interest on investments, etc. Other	1,394 1,067 922 491 467 972	5,313	1,301 1,058 985 500 265 925	+2	93 + 9 -63 -9 -02 47 + 279
Total		41,692		40,713	+ 979

## **Expenditure and its Major Components**

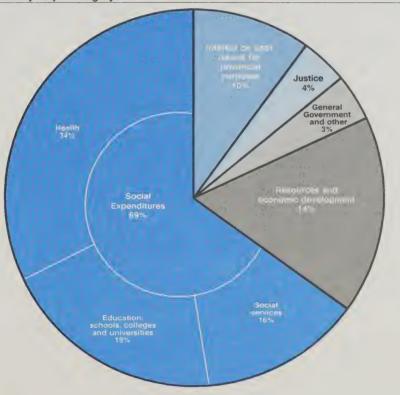
Total expenditure for 1989-90 was \$41,602 Transfer payments million. Chart 8 shows expenditure by major category.

The major components of expenditure are transfer payments, program delivery costs and interest on debt issued for provincial purposes, each of which is discussed in turn. Graph 9 illustrates the five year trend of these components as a percentage of total expenditure.

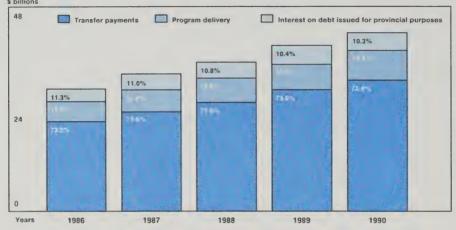
Transfer payments include grants, subsidies and assistance to persons and other government bodies. They totalled \$30,534 million, representing 73.4 per cent of expenditure.

Graphs 10, 11 and 12 show the five year trend of transfer payments for health. education and social services.

Chart 8 Expenditure by major category



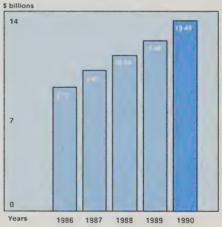
Graph 9
Major components as a percentage of expenditure, 1986 to 1990



#### Health transfer payments of \$13,453 million included:

- \$7,053 million (52%) to hospitals and related facilities for operating and capital purposes, including advance payments of \$334 million for 1990-91 hospital entitlements:
- \$4,244 million (31%) to physicians and other health practitioners for services and health care provided under the Ontario Health Insurance Plan (OHIP);
- \$1,501 million (11%) to extended and special care facilities, ambulance and other health services; and
- \$642 million (5%) in fully subsidized prescription drugs provided to individuals 65 years of age and over.
- Education transfer payments amounted to \$8,294 million. The Province supports local school boards for primary and secondary schools, and also funds universities, colleges and other post-secondary institutions. Major elements were:

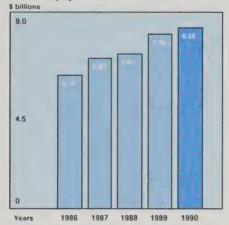
Graph 10
Transfer payments - Health



- \$4,473 million (54%) to local school boards for their operating and capital costs;

Graph 11

#### Transfer payments - Education

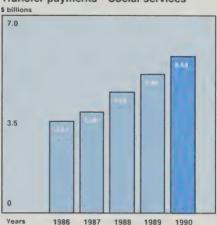


- \$2,685 million (32%) to the postsecondary education sector for operating and capital costs; and
- \$699 million (8%) to match the teachers' contributions to the Teachers' Superannuation and Adjustment Funds, and to supplement pensions under these plans, including an advance payment of \$140 million pertaining to unfunded liability instalments to the Teachers' Pension Plan Fund.
- Social services transfer payments totalled \$5,533 million. These payments are made mainly by the Ministry of Community and Social Services. Major expenditures were:
- \$3,201 million (58%) for income maintenance to individuals requiring assistance on a long-term basis and subsidies to municipalities for their assistance programs;
- \$862 million (16%) to support children's programs such as children's aid societies, day nurseries, mental health facilities and young offenders' programs; and
- \$581 million (11%) by the Ministry of Revenue, in the form of property tax grants, sales tax grants, and guaranteed annual

income payments, all of which benefit Ontario senior citizens.

Graph 12

### Transfer payments - Social services

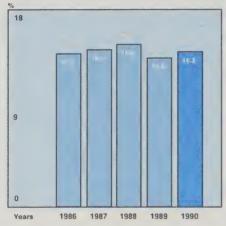


- Transfer payments to local governments, designed to assist general municipal programs for purposes other than health, education, and social services (including housing) totalled \$2.134 million. Major elements were:
- \$682 million in subsidies to municipalities for road programs;
- \$459 million to municipalities in unconditional grants (\$413 million was advanced in 1988-89 from the 1989-90 entitlements); and
- \$383 million in capital and operating subsidies to municipalities for transit systems.

#### **Program delivery**

Program delivery costs, consisting of salaries and benefits for public servants and other direct operating expenditures, totalled \$6,768 million or 16.3 per cent of total expenditures.

**Graph 13 Program delivery as a per cent of total expenditure** 



## Interest on debt issued for provincial purposes

Interest costs associated with debt for provincial purposes were \$4,284 million, or 10.3 per cent of expenditure, down from 10.4 per cent in the previous year. As a percentage of revenue, the interest costs were 10.3 per cent, down from 10.8 per cent in the previous year. This is the result of increased debt retirements and the continued reduction in financing in recent years.

Graph 14
Interest on debt for provincial purposes as a percentage of expenditure/revenue



#### Capital investments

The capital investments of the Province include direct capital projects such as provincial highways and the Province's share of capital spending undertaken by municipalities, hospitals, universities, school boards, other provincial organizations and joint projects with private industry.

In fiscal year 1989-90, these investments amounted to \$3,392 million.

#### **Debt**

#### Ontario's Debt

Ontario's own purpose debt which includes all obligations of the Province issued for provincial purposes totals \$39,256 million. Debentures and notes account for \$37,170 million while deposits, mainly with the Province of Ontario Savings Office, represent the balance of \$2,086 million. The major components are illustrated on chart 17.

#### **Financing**

In 1989-90, the Province's net financing amounted to \$242 million, \$704 million below the 1989-90 Budget estimate. Sources of financing included \$1,882 million of new debt issues of the Teachers' and Public Service Pension Plans, and \$366 million in borrowing from the Province of Ontario Savings Office (POSO) and other deposits. Debt retirements of \$2,006 million are comprised mainly of \$446 million of Canada Pension Plan (CPP) debt, \$189 million of Teachers' Pensions, \$712 million of Public Service Pensions, and \$650 million of Treasury Bills.

New pension legislation enacted in December 1989 established two pension funds, the Ontario Teachers' Pension Fund and the Public Service Pension Fund, combining the former Teachers' Superannuation Fund and the Public Service Superannuation Fund with their respective Superannuation Adjustment Funds. The new legislation authorizes the Funds to invest their net cash flows in public capital markets.

In 1989-90, the Ontario Housing Corporation borrowed \$436 million directly from CPP (guaranteed by the Province) for the Homes Now program.

As a result of increased debt retirements and continued reduction in financing, Ontario's debt as a percentage of Gross Domestic Product declined to 14.6 per cent in 1989-90 from 15.7 per cent in the previous year, as depicted on graph 15.

Another measure of Ontario's ability to carry its debt is in the number of months of revenue that would be required to repay the total debt. As shown on graph 16, this number has fallen steadily in the past five years from 15 months in 1985-86 to 11.3 months in 1989-90.

#### **Province of Ontario Savings Office**

Deposits and investment certificates are fully guaranteed by the Province. Funds, which are surplus to the day to day operating needs, are deposited with the Treasurer of Ontario. The balance on deposit at year end was \$1,765 million, an increase of \$315 million from the previous year.

#### Ontario Hydro

The Province has also borrowed on behalf of Ontario Hydro, in the United States, and from Canada Pension Plan. The proceeds were advanced to Ontario Hydro, secured by bonds bearing like terms and conditions to the securities issued by Ontario. Of the \$7,898 million outstanding as at March 31, 1990, \$5,150 million (U.S. \$4,401 million) has been borrowed in the United States and \$2,748 million from CPP. In addition, securities issued by Ontario Hydro are guaranteed by the Province. As at March 31, 1990 they represented a contingent liability of \$19,727 million.

The Province and Ontario Hydro are developing a global financing strategy to take advantage of financing opportunities in both Canadian and international capital markets.

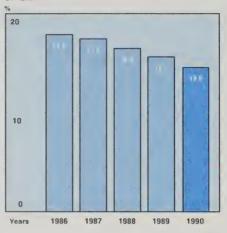
#### Ontario's Consolidated Public Sector Debt

A broader measure of public sector debt in Ontario is presented in Table 2 and includes:

- Ontario's debt issued for provincial purposes;
- · deposits with POSO and other accounts;
- Ontario's debt issued on behalf of Ontario Hydro;
- obligations issued by Ontario Hydro and guaranteed by the Province; and
- an estimate of other public sector debt (in the form of bonds, debentures, and notes excluding sinking funds and own holdings) incurred by provincial agencies and by the local government, university and hospital sectors.

The above approach to debt highlights the effects of centralization of Ontario's public sector financing through which the Province's own financial base has been used to substantially fund the local government sector and its agencies. The Province carefully controls the use of the provincial guarantee, restricting it primarily to borrowings by Ontario Hydro and Ontario Housing Corporation.

Graph 15
Ontario's debt as a percentage of GDP



Graph 16
Months of revenue to repay
Ontario's debt

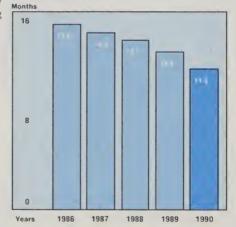
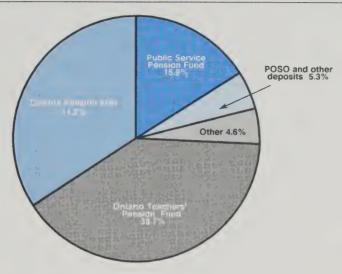


Chart 17 Ontario's debt - major components March 31, 1990



Ontario's Consolidated Public Sector Debt		Table 2
March 31		
(\$ millions)	1990	1989
Ontario's Debt:		
Debt issued for Provincial purposes	37,170	37,294
Other:		
- Province of Ontario Savings Office and		
other deposits	2,086	1,720
	39,256	39,014
Ontario Hydro Debt:		
Debt incurred by the Province	7,898	7,789
Debt guaranteed by the Province*	19,727	19,259
	27,625	27,048
Other Public Sector Debt (estimated)	4,462	4,260
Total Ontario's Consolidated Public Sector Debt	71,343	70,322

<sup>\*</sup> The guaranteed debt excludes bank loans and is net of debt accumulated by Ontario Hydro for early retirement, which in 1990 was \$1,126 million (1989 \$1,075 million).

## **Selected Financial and Economic Statistics**

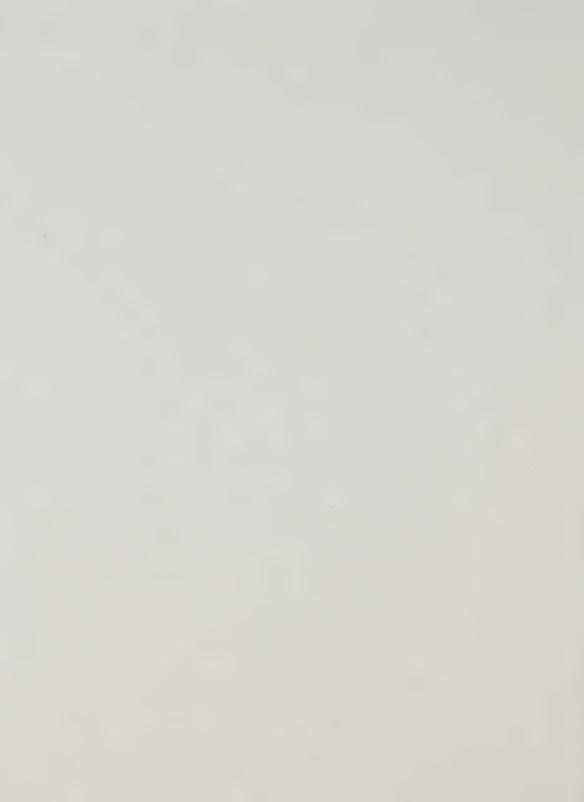
March 31 (\$ millions)	89-90	88-89	87-88	86-87	85-86
<b>Financial Transactions</b>					
Revenue	41,692	37,256	32,453	29,544	26,240
Expenditure	41,602	38,735	34,942	32,178	28,854
Surplus/(Deficit)	90	(1,479)	(2,489)	(2,634)	(2,614)
Accumulated Deficit	35,409	35,499	34,020	31,531	28,919
Net Financing	242	2,033	1,878	2,199	2,863
Ontario's debt/liabilities					
Debt issued for					
- Provincial purposes	37,170	37,294	35,703	33,994	32,020
Province of Ontario Savings Office and other deposits	2,086	1,720	1,278	1,109	884
Ontario's debt/liabilities	39,256	39,014	36,981	35,103	32,904
Ontario Hydro -					
Debt incurred by the Province	7,898	7,789	7,541	7,786	8,189
Contingent liabilities (mainly Ontario Hydro)	21,490	20,559	18,595	17,603	15,963
Gross Domestic Product (GDP) at market prices <sup>1</sup>	269,552	247,969	223,694	201,228	183,561
Personal income per capita <sup>1</sup> (dollars)	23,709	21,849	20,242	18,508	17,354
Ontario's Debt as a percentage of GDP	14.6	15.7	16.5	17.4	17.9

<sup>&</sup>lt;sup>1</sup> Gross domestic product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

# 1990 Financial Statements

Summary of significant accounting policies	19
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# **Summary of Significant Accounting Policies**

### Reporting entity

The financial statements, prepared using the concept of a Consolidated Revenue Fund, are designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province are designed to accommodate reporting to the Legislature and, accordingly, the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. Activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund

#### **Basis of accounting**

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended and for certain non-cash transactions. Cash inflows, however, are closed at March 31 for cash received.

Loans and advances are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of their underlying security has diminished, or when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of \$1.

The Province's financial transactions are recorded under the following four categories:

#### Revenue

This includes revenue raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and cost-shared programs, and income from investments.

#### Expenditures

Expenditures on government programs include transfer payments to individuals, local governments and institutions, interest on debt issued for provincial purposes, salaries and employee benefits, payments for goods and services, and the acquisition and construction of fixed assets. Fixed asset costs are charged to expenditure when acquired or constructed since they are not considered to differ from any other service to the public.

### **Financing**

Financing consists of debt transactions, deposits with the Province of Ontario Savings Office, and other deposits.

Debt transactions are the borrowing and repayment activities associated with Ontario's provincial purpose debt.

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### Loans and investments

Loans and investments are the lending and investment activities in various Crown corporations, agencies and local governments.

#### Financial assets, accumulated deficit and liabilities

#### Financial assets

Financial assets are cash and claims by the Consolidated Revenue Fund on other parties arising from cash transactions.

#### Accumulated deficit

The accumulated deficit of the Province is the difference between its liabilities and its financial assets. The year-to-year change in the accumulated deficit is the amount by which revenues are greater or less than expenditures.

#### Liabilities

Liabilities are established claims by other parties on the Consolidated Revenue Fund.

Debt issued for provincial purposes comprises debentures and notes which are recorded at face value. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include deposits with Province of Ontario Savings Office and other deposit accounts.

### Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown. Contingent liabilities denominated in foreign currencies are translated to Canadian dollars at the year-end rates of exchange.

#### Ontario Hydro

Advances to, and debt incurred for, Ontario Hydro relate to amounts borrowed on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan, they are classified separately. Both the advances and the debt incurred are stated in Canadian dollars using year-end rates of exchange.

# **Statement of Financial Transactions**

Province of Ontario	
For the year ended Budget Actual Actual March 31, 1990 1990 1990 1989 (\$ millions)	al )
Revenue 40,713 14 41,692 37,25	56
<b>Expenditure</b> 41,290 41,602 38,73	35
Surplus (Deficit) (577) 90 (1,47)	79)
Financing	
Debt: Issues       2,048       1,882       2,51         Retirements       1,428       2,006       92	2 20
Net Debt Issues (Retirements) 620 (124) (124)	
Province of Ontario Savings Office and Other Deposits 326 366 44	<u> 11</u>
Net Financing 2,42 in 12,03	
Loans and Investments -         5         27         6           Net Repayments         5         269         2,12	
Increases in Cash and Temporary Investments (374) (359) (65	50)
Increase (Decrease) in Accumulated Deficit 577 (90) 1,4	79

See accompanying Summary of significant accounting policies and Notes to the financial statements.

# **Statement of Revenue**

Province of Ont	tario		
For the year ended March 31, 1990 (\$ millions)	Budget 1990	Actual 1990	Actual 1989
Taxation			
Personal income tax	12,636	13,518	11,687
Retail sales tax	8,679	8,549	7,775
Corporations tax	4,827	4,720	4,223
Gasoline tax	1,394	1,356	1,230
Employer health tax	549	477	~
Tobacco tax	646	. 770	750
Land transfer tax	632	701	634
Fuel tax	345	348	309
Mining profits tax	150	197	135
Reciprocal taxation	115	133	109
Race tracks tax	83	83	79
Public utilities income tax	85	103	54
Commercial concentration tax	62	. 53	-
Other	17	7	12
	30,210	31,015	26,997
Other revenue			
Ontario Health Insurance Plan premiums	1,301	1,394	1,745
Profits from Crown corporations and boards			
Liquor Control Board of Ontario	608	640	645
Ontario Lottery Corporation	500	491	485
Vehicle registration fees	587	614	509
Liquor Licence Board of Ontario revenues	450	427	399
Other fees and licences	398	308	279
Interest on investments and loans	265	467	265
Royalties	206	193	187
Utility service charges	137	134	137
Sales and rentals	121	- 113	131
Fines and penalties	187	120	113
Miscellaneous	274	412	251
	5,034	5,313	5,146
Government of Canada			
Established Programs Financing	2,676	2,616	2,674
Extended Health Care Services	492	491	463
Canada Assistance Plan	1,739	1,746	1,497
National Training Agreement	. 116	109	114
Bilingualism Development	56	57	48
Young Offenders	78	56	56
Vocational Rehabilitation	61	51	30
Other	251	238	231
	5,469	5.364	5,113
Total revenue	40,713	41,692	37,256

See accompanying Summary of significant accounting policies and Notes to the financial statements.

# **Statement of Expenditure**

Province of Ontario					
For the year ended March 31, 1990 (\$ millions)	Budget 1990		Actual 1989		
Ministry					
Agriculture and Food	527	509	511		
Attorney General	506	493	415		
Board of Internal Economy	98	103	99		
Citizenship	51	46	46		
Colleges and Universities	2,746	2,731	2,668		
Community and Social Services	5,056	5,062	4,311		
Consumer and Commercial Relations	156	158	146		
Correctional Services	454	473	410		
Culture and Communications	317	314	255		
Education	5,210	5,321	5,111		
Energy	43	33	38		
Environment	483	487	415		
Executive Offices	9	8	8		
Financial Institutions	41	41	37		
Government Services	740	668	612		
Health	13,904	14,127	12,569		
Housing	537	527	421		
Industry, Trade and Technology	183	. 136	156		
Technology Fund	. 85	. 72	62		
Intergovernmental Affairs	9	8	9		
Labour	139	133	119		
Management Board	48	41	38		
Municipal Affairs	565	565	1,383		
Natural Resources	570	587	577		
Northern Development and Mines	322	308	287		
Office for Disabled Persons	8	8	7		
Office of Francophone Affairs	. 3	4	3		
Office Responsible for Native Affairs	6	. 6	4		
Office Responsible for Senior Citizens Affairs	9	7	. 7		
Office Responsible for Women's Issues	18	17	16		
Revenue	850	825	799		
Skills Development	433	415	402		
Solicitor General	475	498	448		
Tourism and Recreation	191	185	177		
Transportation	2,313	2,319	2,067		
Treasury and Economics	2,313	2,319	2,067		
	63	51	41		
Economic Development Projects					
Interest on debt issued for provincial purposes	4,290	4,284	4,032		
Expenditure savings and constraints (note 9)	(200)	44 (00	-		
Total expenditure (note 8 and 10)	41,290	41,602	38,735		

See accompanying Summary of significant accounting policies and Notes to the financial statements.

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# **Statement of Financing**

	<b>Province of</b>	Ontario	
For the year ended March 31, 1990 (\$ millions)	Budget 1990	Actual 1990	Actual 1989
Debt			
Issues:			
Teachers' Pensions	1,000	1,290	1,809
Public Service Pensions	1,048	592	703
	2,048	1,882	2,512
Retirements:			
Canada Pension Plan	454	446	412
Teachers' Pensions	8 - 8 - <del>4</del>	189	_
Public Service Pensions			-
Public	650	650	500
Other	. 5	<u>9</u>	8
	1,428	2,006	920
Net Debt Issues (Retirements)	620	(124)	1,592
Province of Ontario Savings Office Net Deposits		315	377
Other Deposits - Net	4 41	51	64
Net Financing	946	242	2,033

See accompanying Summary of significant accounting policies and Notes to the financial statements.

# **Statement of Loans and Investments**

Province of Ontario					
For the year ended March 31, 1990 (\$ millions)	Budget 1990		Actual 1990	Ac 19	tual 989
Repayments					
Corporations, boards and commissions	42		. , <b>57</b>		80
School Boards	34		34		40
Water treatment and waste control facilities	21		24		26
Tile Drainage Debentures	21 %		23		23
Other	<u>36</u>		_29	1900 No. 19	33
					202
Issues					
Corporations, boards and commissions	83		68		67
Water treatment and waste control facilities					
Tile Drainage Debentures	14 .		13		12
Other Translation of the Control of	6		_26	, <u></u>	3
				. 1 1 1	106
Net Repayments	5		27		96

See accompanying Summary of significant accounting policies and Notes to the financial statements.

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### **Statement of Financial Position**

Province of Ontario		
As at March 31, 1990	. 1000	1000
(\$ millions)	1990	1989
Financial assets		
Cash and temporary investments (note 1)	2,603	2,244
Investments in water treatment and waste control facilities (at cost less recoveries) (note 2)	475	466
Loans to local governments	318	380
Loans and investments in corporations, boards and commissions (note 3)	381	370
Other loans	70	55
	3,847	3,515
Advances to Ontario Hydro, secured by bonds (note 4)	7,898	7,789
Total financial assets	11,745	11,304
Accumulated deficit	35,409	35,499
	47,154	46,803
Liabilities		
Debt issued for provincial purposes (note 5)	37,170	37,294
Deposits with the Province of Ontario Savings Office		
and other deposits	2,086	1,720
Total liabilities for provincial purposes	39,256	39,014
Debt incurred for Ontario Hydro (note 5)	7,898	7,789
	<u>47,154</u>	46,803
Contingent liabilities (note 7)	21,490	20,559

See accompanying Summary of significant accounting policies and Notes to the financial statements.

The accompanying March 31, 1990 financial statements of the Province of Ontario, including the notes are the responsibility of the Office of the Treasury and have been prepared in accordance with the accounting policies as described in the Summary of Significant Accounting Policies. In the opinion of the Office of the Treasury, these financial statements have been properly prepared, include all material items, and contain all information available up to July 20, 1990.

B. P. DAVIES, Deputy Treasurer of Ontario and Deputy Minister of Economics

W.D. TYSALL, CA, Director, Financial Information and Accounting
Policy Branch

# **Notes to the Financial Statements**

(all tables in millions of dollars)

## 1. Cash and temporary investments

Temporary investments are recorded at cost and are mainly marketable, short-term securities issued or guaranteed by Canadian chartered banks, provincial and federal governments.

## 2. Investments in water treatment and waste control facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities.

Agreements covering \$401 million of the investment are for provincially-owned projects that are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, amounting to \$29 million at March 31, 1990 (1989 \$26 million), was applied as a reduction of the investment account.

# 3. Loans and investments in corporations, boards and commissions

Dovalogment Company in a	1990	1989
Development Corporations	\$308	\$290
Other	<u>73</u>	80
	\$381	\$370

The Province advances funds for the lending activities carried out by the Development Corporations. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to \$35 million in 1990 (1989 \$29 million). In addition to repayments, advances to the Corporations are reduced by their loan forgiveness and write-offs amounting to \$9 million in 1990 (1989 \$13 million).

#### 4. Advances to Ontario Hydro

The Province issues securities and advances the proceeds to Ontario Hydro in exchange for Ontario Hydro bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not part of the Province's own budget plan. As at March 31, 1990, the bonds consist of U.S. \$4,401 million (1989 U.S. \$4,770 million), and Canadian \$2,748 million (1989 Canadian \$2,097 million) with respect to Canada Pension Plan funds. The bonds denominated in U.S. dollars are recorded at \$5,150 million (1989 \$5,692 million), the Canadian dollar equivalent using the exchange rate in effect at year end. Transactions during the year are as follows:

Proceeds of loans Retirements of loans	1990 \$650 (436)	1989 \$589 (145)
Net proceeds	214	444
Foreign exchange gain	(105)	(196)
Net increase in debt incurred for Ontario		
Hydro purposes	109	_248
Related advances, interest and recoveries		
Advances to Ontario Hydro	650	589
Interest	876	838
Recovery of interest and loan retirements	(1,312)	(983)
Net advances	214	444
Foreign exchange gain	(105)	(196)
Net related advances, interest, foreign exchange - gain and recoveries	\$109	\$248

### 5. Debt

Debentures and notes for provincial purposes, and for Ontario Hydro, expressed in Canadian dollars, by the currency in which they are payable and by years of repayment maturity are summarized in the following tables.

	For Provincial p	urposes	
	1990		<u>1989</u>
Years of repayment/ maturity March 31	Weighted average interest rate %		Weighted average interest rate %
1990 \$ 1991 683 1992 633 1993 1,176 1994 1,086 1995 1,046	9 6 7	\$1,414 534 638 1,177 1,087	
1-5 years 4,636 6-10 years 7,80° 11-15 years 10,136 16-20 years 10,37; 21-25 years 4,150 26-30 years 663 31-35 years \$\frac{5}{37,176}\$	7 9.63 6 12.18 3 11.94 2 10.81 4 10.03 2 10.68	4,850 6,738 10,035 10,925 4,665 71 10 \$37,294	8.33 9.42 11.64 12.30 11.18 9.94 10.32 10.94
Payable to:		1990	1989
Minister of Finance of Canada Canada Pension Plan Invest Other		\$13,535 324	\$13,981 332
Ontario Teachers' Pension Fun	nd	15,622	14,521
Public Service Pension Fund The Ontario Municipal Emplo	vees	6,224	6,345
Retirement Fund		1,293	1,293
Public Investors		172	822
		\$37,170	\$37,294

	1	or On	tario Hy	aro
		19	90	
ears of				W
avment/				a

		-				
Years of				Weighted	1	Weighted
repayment/				average		average
		T Turband				
maturity	· ·	United		interest		interest
March 31	Canadian	States	Total	rate %	Total	rate %
1990					\$ 239	
1991	\$	\$ 51	\$ 51		. 52	
1992		347	347		354	
1993		228	228		232	
1994						
1995		292				
1-5 years		918		13.85	877	13.40
					011	
6-10 years		445		7.33	605	9.52
11-15 years	1,000	694	1,694	11.83	1,666	12.12
16-20 years	1,748	2,183	3,931	9.47	3,394	9.35
21-25 years		910	910	14.78	_1,247	13.52
	\$2,748	\$5,150	\$7,898	10.98	\$7,789	11.06

1989

Payable to:	1990	1989
Minister of Finance of Canada Canada Pension Plan Investment Fund Public Investors	\$2,748 _5.150 \$7.898	\$2,097 

The U.S. dollar debenture liability has been revalued, using the rate of exchange as at March 31. The foreign exchange gain is \$105 million (\$196 million in 1989).

As explained in Note 4, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

#### 6. Pensions

### a) Changes in legislation

New legislation was enacted in December 1989, affecting the Public Service and Teachers' Pension plans.

- i) In accordance with the Public Service Pension Act, 1989:
- The Public Service Superannuation Fund (PSSF) established under the Public Service Superannuation Act is continued as the Public Service Pension Fund (PSPF).
- The assets and liabilities of the Superannuation Adjustment Fund account (the Account) for the Public Service Superannuation Plan and the Ontario Provincial Police Supplementary Benefits account were transferred to the PSSF on December 31, 1989.
- As of January 1, 1990, the assets and liabilities of the PSSF were transferred to the PSPF, and the
  PSSF ceased to exist in the Consolidated Revenue Fund. The transfer of assets was made by the
  issuance of \$6.9 billion in non-marketable debentures of the Province of Ontario.
- As of January 1, 1990, the Public Service Pension Board is responsible for managing the assets of, and paying the benefits for, the Public Service Pension Plan.

On April 2, 1990, an action was commenced in the Supreme Court of Ontario challenging the transfer of the Account's assets and liabilities to the PSSF. The impact on the Consolidated Revenue Fund, if any, cannot be determined because the outcome of this action is uncertain.

- ii) In accordance with the Teachers' Pension Act, 1989:
- The Teachers' Superannuation Fund (TSF) established under the Teachers' Superannuation Act is continued as the Ontario Teachers' Pension Fund.
- The assets and liabilities of the Superannuation Adjustment Fund account (the Account) for the Teachers' Superannuation Fund were transferred to the TSF on December 31, 1989. These net assets were transferred by the issuance, on January 1, 1990, of \$1.6 billion in non-marketable debentures of the Province of Ontario, and the Account ceased to exist in the Consolidated Revenue Fund.
- As of January 1, 1990, the Ontario Teachers' Pension Board is responsible for managing the assets
  of, and paying the benefits for, the Teachers' Pension Plan.

#### b) Unfunded liabilities

#### i) The Public Service Pension Plan

The Province makes payments matching contributions for members of the Public Service Pension Plan (the Plan) and is committed to paying any deficiency. The adequacy of the assets in the Plan to finance benefits is determined by a triennial actuarial valuation.

The latest valuation of the PSSF filed with the Pension Commission of Ontario covered the period ended December 31, 1985 and showed an actuarial surplus of \$109.9 million.

An actuarial valuation as of January 1, 1990 will determine the size of the unfunded liability of the PSPF. This will be done under the direction of the Public Service Pension Board (the Board), pursuant to the Public Service Pension Act, 1989. A preliminary actuarial valuation of the PSPF prepared in 1989 estimated an unfunded liability of \$1.9 billion as at January 1, 1990. The Province will pay the unfunded liability, over 40 years, in accordance with the legislation.

Interim payments, based on the estimated initial unfunded liability, to be paid by the Province until 1992, are: \$89.6 million in 1990, \$94.5 million in 1991, and \$99.7 million in 1992, for a total of \$283.8 million.

The amount of these payments will be adjusted when the actuarial valuation prepared for the Board is filed with the Pension Commission of Ontario.

#### ii) Ontario Teachers' Pension Plan

The Province makes annual payments matching teachers' contributions to the Teachers' Pension Fund (TPF) and is committed to paying any deficiency in the TPF. The adequacy of the assets in the TPF to finance benefits is determined by a triennial actuarial valuation.

The latest actuarial report for the Teachers' Superannuation Fund as at December 31, 1987, showed a surplus of \$33 million.

An actuarial valuation as of January 1, 1990 will determine the size of the unfunded liability of the TPF. This will be done under the direction of the Ontario Teachers' Pension Plan Board (the Board) pursuant to the Teachers' Pension Act, 1989. A preliminary actuarial valuation of the TPF prepared in 1989, estimated an unfunded liability of \$4.0 billion as at January 1, 1990. The Province will pay the unfunded liability over 40 years, in accordance with the legislation.

Interim payments, based on the estimated initial unfunded liability, to be paid by the Province until 1992, are: \$192.4 million in 1990, \$202.9 million in 1991, and \$214.1 million in 1992, for a total of \$609.4 million.

The amount of these payments will be adjusted when the actuarial valuation prepared for the Board is filed with the Pension Commission of Ontario.

Any future deficiencies for the Ontario Teachers' Pension Plan and the Public Service Pension Plan will be amortized as prescribed by the Pension Benefits Act.

#### 7. Contingent liabilities

	1990	1989
Obligations guaranteed by the Province:		
Debentures/bonds and notes		
Ontario Hydro	\$19,727	\$19,259
Loans guaranteed	1,593	852
Other	170	448
	\$21,490	\$20,559

### Claims against the Crown:

There are claims outstanding against the Crown of which ten are for amounts over \$50 million each, arising from legal action, either in progress or threatened, in respect of native Indian land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain. To the extent that any such claims are successful, resulting settlements will be recorded as expenditures when paid.

### 8. Expenditure by standard account classification

	1990	1989
Salaries and wages	\$ 3,349	\$ 3,093
Employee benefits	576	512
Transportation and communication	352	329
Services	1,568	1,396
Supplies and equipment	751	687
Acquisition/construction of physical assets	645	507
Transfer payments	30,534	28,564
Interest on debt issued for provincial purposes	4,284	4,032
Other transactions	139	. 149
Less: recoveries	(596)	(534)
Total expenditure	\$41,602	\$38,735

#### 9. Budget figures

The budget figures in the financial statements are based on data from the 1989 Ontario Budget which was tabled by the Treasurer of Ontario in the Legislative Assembly on May 17, 1989.

The Expenditure savings and constraints figure in the Statement of Expenditure represents expected underspending during the year which was not specifically identified by ministry at Budget time.

#### 10. Advance Payments

In March 1990, Management Board of Cabinet approved earlier payments to hospitals and the Ontario Teachers' Pension Plan. The expenditures for the Ministry of Health and the Ministry of Education were increased by \$334 million and \$140 million respectively for payments which otherwise would have been made in the 1990-91 fiscal year.

### 11. Comparative figures

The 1989 comparative figures have been reclassified where necessary to conform with the 1990 Financial Statement presentation. This includes the liability of the Province for the following pension plans which have been reclassified to 'Debt issued for provincial purposes' from 'Net deposits to pension and related benefit funds', as described in note 6:

- · Public Service Superannuation Fund,
- Superannuation Adjustment Fund,
- Ontario Provincial Police Supplementary Benefits account.

# **Provincial Auditor's Opinion**

I have examined the statement of financial position of the Province of Ontario as at March 31, 1990 and the statements of financial transactions, revenue, expenditure, financing, and loans and investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

With respect to the terms "in my opinion" and "present fairly" in the preceding paragraph, my examination was carried out to provide me with a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than \$80 million.

S.J. ancher

Provincial Auditor Toronto, Ontario July 20, 1990.

D.F. Archer, FCA,

### **Sources of Additional Information**

### The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. The background and implications of any new tax proposals are contained in the Budget paper, which includes the Budget Statement, Budget measures, the fiscal plan and other information. Copies may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

#### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Treasurer. The Estimates outline the spending plans of each Ministry that the Legislative Assembly will be asked to approve in the form of a Supply Act. Copies of the Estimates may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.

#### The Public Accounts of Ontario

The Public Accounts of Ontario, the government's annual financial statements required by Section 13 of the Ministry of Treasury and Economics Act for the fiscal year ended March 31, is tabled in the Legislature usually in October of each year. They consist of three volumes:

- · Volume 1 contains the financial statements of the Province and schedules of supporting information.
- Volume 2 contains the financial statements of selected provincial crown corporations, boards and commissions.
- Volume 3 contains the details of expenditure.

The Public Accounts are available from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario

Prices are: Volume 1, \$5; Volume 2, \$4; Volume 3, \$3.50.

#### **Ontario Finances**

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during the quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

#### **Ontario Economic Accounts**

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing to the Ministry of Treasury and Economics, Office of Economic Policy, 5th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.

### Demographic Bulletin

This bulletin provides population projections and estimates for Ontario and its counties, districts and regional municipalities. It also contains statistics on the components of population change in Ontario and is produced intermittently during the year. Copies may be obtained free from the Ontario Government bookstore, Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario M7A 1N8.







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# PROVINCE OF ONTARIO



Financial Report 1994

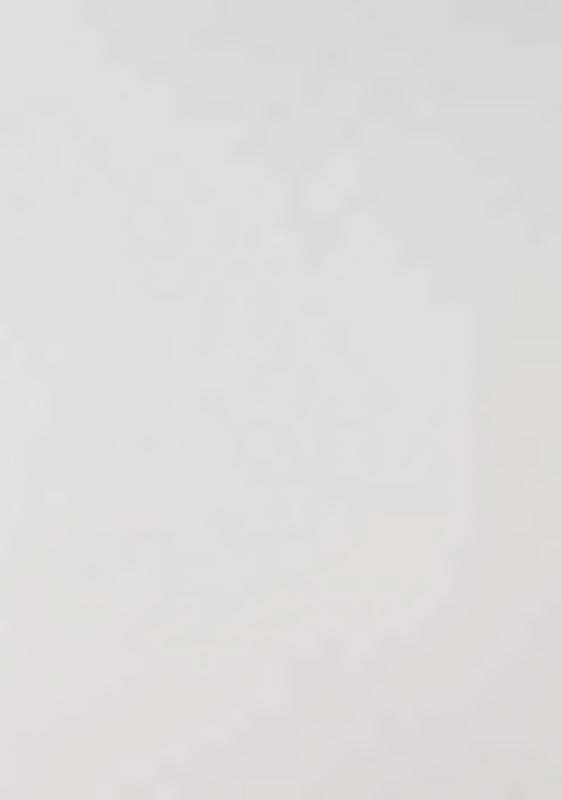




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The front cover depicts the Ontario Legislature Building at Queen's Park in Toronto. The red sandstone structure, in the romanesque revival style, was completed in 1892 and first used by the Legislative Assembly in April of 1893. The architectural rendering comes from the Archives of Ontario, Ref. RG 15 E6, Drawing 11-1-A-1.



### FROM THE MINISTER

Government programs and services have an impact on everyone who lives in Ontario. Most of the money that the Province spends comes, in turn, from our taxes, fees and other charges. This creates an obligation to spend that money wisely and explain each year how it was raised and where it went.

Our accounting statements and policies are the basic set of rules that determine how we provide this explanation. This year, for the first time in more than 25 years, we are making a major change in the way we measure and present our financial results. This report outlines the Province's new accounting policies of accrual and consolidation.

In looking at the year ended March 31, 1994, this report draws largely on the Financial Statements in the Public Accounts, on which the Provincial Auditor has given an unqualified opinion.

It's important to remember that changing the accounting rules doesn't change the events that a financial report records. To underline that point, we discuss what the numbers mean and how they differ from the way the Budget presents the same information.

One of the most important challenges we still face is how to account for our spending on capital — assets such as highways, schools, and hospitals. Because we believe this spending to be vital in bolstering our economy and improving the quality of our lives, this report talks about how we plan to improve the way we record it.

We're always trying to improve the way we present and explain financial information. To do this we need to hear what our readers think. If you have any suggestions as to how we can improve this report, please write to me.

Floyd Laughren
Minister of Finance

Toronto, October 1994

Floyd Laughren Minister of Finance 7th Floor, Frost Building South 7 Queen's Park Crescent

Queen's Park Toronto, Ontario

M7A 1Y7

# 1994 RESULTS: AN OVERVIEW

This year marks the first major change since 1968 in the way the Province of Ontario reports its financial activities. The changes which this report describes, and which are reported in more detail in the Public Accounts, respond to the recommendations of both the Provincial Auditor in his 1993 audit opinion and the Public Sector Accounting and Auditing Board (PSAAB). PSAAB is the national body that draws up accounting standards for Canadian governments.

The financial statements have changed both in the way they are laid out and in the numbers they contain. These changes, which result from adopting the accounting principles of accrual and consolidation, do not change the underlying events. The Province has described those events in its Budgets and elsewhere.

The move to a new accounting system does mean that many of the figures shown for 1993-94 in this year's financial statements can't be compared directly to those of previous years, since the earlier information has not been restated on the new basis. Similarly, they are not directly comparable to the way those numbers are presented in the provincial Budget, which remains a financial planning and policy document focusing on the Province's use of cash.

Because the cash flows related to its activities are the same under either accounting system, reported debt is essentially the same under the new accounting system as under the old. However, the change has had other impacts on the Province's assets, liabilities and accumulated deficit which are discussed in more detail below.

#### Accrual and consolidation

Until this year, Ontario reported its finances using the principle of modified cash accounting. Now, instead, it uses the principles of accrual and consolidation, which are explained in detail in the boxes on pages 4 and 7. Under accrual accounting, revenue and spending are recorded in the year in which the Province becomes entitled to the revenue or is obligated to make the payment, rather than the year when it actually receives or pays out the cash.

Under consolidation, government agencies whose activities were previously reported separately are now brought into the Province's own financial statements. Their operating results and balance sheet items are combined with the Province's. Transactions between the Government and these agencies are netted out or "eliminated".

# Revenue, spending and the deficit

Changing from one system to another has an impact on how the Government reports both its revenues -- what the Province takes in through taxes, fees, grants, and other items -- and its spending. The impact then moves through revenue and spending to change the deficit.

Table I compares revenue, spending, interest costs and the deficit under the two different systems of accounting.

TABLE I. IMPACT OF CHANGE IN ACCOUNTING TREATMENT FOR THE YEAR-ENDED MARCH 31, 1994 (\$ MILLIONS)			
	Current Public Accounts Basis	Previous Public Accounts Basis	Impact on Deficit
Revenue	\$43,674	\$44,077	\$403
Spending	47,393	46,396	997
Interest costs	7,129	6,959	170
Deficit	\$10,848	\$9,278	\$1,570

Table I includes the impact of both accrual and consolidation. Table II breaks down the change in each item revenue, spending, interest costs and the total change in the deficit to show how the number changed because of accrual, consolidation, or both.

TABLE II. SOURCE OF CHANGES IN REVENUE, SPENDING, INTEREST COSTS (\$ MILLIONS)			
Impact of:	Accrual	Consolidation	Total
Change in:			
Revenue	\$(622)	\$1,025	\$403
Spending	572	425	997
Interest costs	170		170
Total	\$120	\$1,450	\$1,570

Accruals increased revenue by \$622 million and spending by \$742 million (including interest costs). The major components of these changes are discussed in Tables III and IV. Consolidation decreased revenue by \$1,025 million and increased spending by \$425 million for a total impact of \$1,450 million. The effect of consolidation works simultaneously through both revenue and spending. An explanation of the combined impact of consolidation follows the accrual discussion.

Revenue and spending are recorded in the Province's Statement of Operations and Accumulated Deficit, which is similar to a company's income statement. It records the Province's revenues, spending and deficit for the year and the change to the accumulated deficit recorded at the end of the year.

The Statement of Financial Position is like a balance sheet. It records provincial financial assets and liabilities, and the accumulated deficit. Changes in these items are discussed after revenue and spending.

### Accruals defined

Until this year, Ontario used a form of **cash accounting**. In basic cash accounting, the financial statements record only the actual cash that flows into or out of the Province's accounts by the end of the fiscal year.

Over the years, Ontario changed its accounting in order to allow for normal business activities, such as suppliers being paid after they deliver goods (which might also be after the fiscal year-end). Under its **modified cash accounting**, the Province "left the books open" on some items for a month after its official year end.

This treatment didn't extend to money such as taxes that the Province was owed, but didn't receive, before the end of the year. By moving to accrual, the Province will be able to treat all transactions the same way.

Under accrual accounting, the accounts record a transaction in the year in which the Province takes on a legal obligation to pay an outside party, or the outside party takes on an obligation to make a payment to the Province. This applies whether the transactions are actually finished by the end of that year.

Instead of waiting until all the cash flows finish, the Province's accountants will now *estimate* what the flows will be after the end of the year. This is a normal part of accrual accounting.

In the financial statements, the Province's accounting method is referred to as "modified accrual and consolidation" because spending on capital is treated as an expense. Full accrual would require that assets be "capitalized and depreciated."

# The impact on revenue: accruals

Table II shows that accruals made revenue as reported in the Statement of Operations \$622 million higher under the new rules than the old. Table III gives the components of the change.

TABLE III. SOURCE OF CHANGES IN REVENUE: ACCRUALS (\$ MILLIONS)		
Item	Accrual adjustment	
Personal income tax	\$410	
Corporations tax	340	
Retail sales tax	110	
Other	(238)	
Total adjustments	\$622	

Previously, the Province counted as revenue only the money it received in a given year. It did not include any taxes it was owed but didn't get before the end of the fiscal year. It did, however, count as revenue any money it got that related to previous years, such as a late payment of sales tax.

Now the Province estimates all the taxes it will receive for the fiscal year it is reporting on and includes them in its revenue. The estimate is based on its experience of previous years' tax collections and its revenue forecasts.

To get to the final revenue number under accrual, the Province adds the amount of tax it expects to collect after year-end. But during the year the Province received money that related to taxes owing for the previous year (or even an earlier year). Under accrual that money isn't counted as revenue for the current year, but for the year it actually relates to. So now the Province subtracts money it got during the year that related to an earlier time period.

In 1993-94, because the economy was starting to expand, the net effect of tax accruals was to increase revenues.

# The impact on spending: accruals

As shown in Table II, changing from modified cash to accrual accounting has made the Province's reported spending \$742 million higher in the Statement of Operations. Table IV breaks out the items that created this increase.

TABLE IV. SOURCE OF CHANGES IN SPENDING: ACCRUALS (\$ MILLIONS)		
Item	Accrual adjustment	
Interest costs	\$170	
Pensions	224	
Transfer payments	186	
Other items	162	
Total	\$742	

Interest costs: Under modified cash accounting, interest costs are usually recorded as an expense on the date they are actually paid. Under accrual, interest is recorded on all debt outstanding in the year, whether the actual interest payment date falls in the year or after it ends. The interest is then charged to spending in the year in which the debt is outstanding.

**Pension costs:** The Province contributes to several public-sector pension plans. Under accrual, an annual pension expense that relates to the costs incurred during the year is calculated and the Province records it in the Statement of Operations. Under modified cash accounting, all pension contributions and expenses are charged to the year the money is paid, regardless of what year they relate to. Most of the increase in 1993-94 is due to the Province recording in 1993-94 the entire estimated cost of the Factor 80 early retirement plan.

**Transfer payments:** This item relates to payments which the Province has agreed to make to its transfer partners (such as municipalities, schools, universities, colleges and hospitals) where the transfer partner is entitled to the money by year-end but hasn't yet received it.

# The impact of consolidation

The box on page 7 explains the mechanics of consolidation. In consolidating agencies, the statements net out or "eliminate" transactions between the Province and its agencies. For example, an agency would report a loan from the Province on its own books as a liability, while the Province recorded it as an asset. But on consolidation, the Province and the agency become part of the same over-all entity. Since that entity can't owe money to itself, the loan disappears.

Many of the changes in the Province's revenue as a result of consolidation come from this netting process:

- GO Transit, an agency of the Ministry of Transportation, carried out a "sale and buy-back" of some of its rolling stock. For GO, this was a financing transaction that increased its debt. With the proceeds, it paid the Province a dividend of \$424 million. Consolidation eliminates the dividend between the Province and GO Transit, lowering by that amount the Province's revenue as reported on a cash basis and increasing its debt.
- The Province sold land, buildings and other assets for \$328 million to the Ontario Realty Corporation, an agency of Management Board Secretariat. That sale increased the Province's revenue on a cash basis and was shown as a purchase of an asset for the realty corporation. On consolidation, these items are eliminated.
- Other changes to both revenue and spending arise from loans made to government agencies and, through them, to "transfer recipients" universities, schools and hospitals. Where the Province will provide funds in future to repay the loans it has made for capital spending, they have been eliminated from the books. Starting on page 11 there is a discussion of how the Province might report its investment in these sorts of assets.

The Province has clearly reported all of these transactions before, in its Budget and other documents. The effect of consolidation in this new method of reporting is to increase the financial statement deficit by \$1,450 million.

#### Consolidation defined

Ontario has set up a number of provincial agencies to carry out special tasks. Some advise the Government on how policies will affect specific groups, like the elderly. Others regulate certain industries or government operations. And some agencies sell goods or services to the public.

Each agency reports to a government ministry. They generally rely on the Province to guarantee their debt and in some cases to fund all or part of their budgets.

Under the principle of consolidation, the Province includes information about agencies in its own financial statements. Several factors determine what information about an agency is included, and how

In consolidating agencies, the statements net out or "eliminate" transactions between the Province and its agencies.

Agencies whose role is advisory or regulatory are consolidated on a **line-by-line** basis. That is, each item of an agency's revenue and spending is combined with that of the Province. On the balance sheet, the agency's assets and liabilities are also combined with those of the Province.

Agencies that operate more like businesses, called "enterprises" in the financial statements, use accounting rules like those of the private sector. The Province uses a different set of rules designed for governments. For that reason, it isn't appropriate simply to add their revenue, spending, assets and liabilities to the Province's.

Instead, they are consolidated on a **one-line** basis. This means that one line on the Province's Statement of Operations shows how much net income the enterprises had during the year. A single line on the balance sheet shows the enterprises' net assets — that is, their assets less debt and other liabilities. This is called the Province's "investment in government enterprises."

Ontario Hydro is an enterprise that produces electrical power. By law, it sells the power at rates that cover its costs. Also by law, any income it earns is held in reserve to offset its future costs and can't be distributed to the Province. For that reason, the Province does not include Ontario Hydro in its "investment in government enterprises."

The Government administers a number of trusts which it doesn't include in its statements. Instead, they are described in the notes to the financial statements. The Workers' Compensation Board, which acts very much like a trust, is also described in the notes. The Board collects insurance premiums which are in turn invested to pay for workers' claims for job-related injuries or illness.

# Changes to the balance sheet

The Statement of Operations shows how much money flowed into and out of the Province's accounts over the year. The balance sheet or Statement of Financial Position gives a snap-shot of where the Province stands at the end of that year, what funds it has, how much it owes, and so on. The changes to the balance sheet from one year to the next follow from the Province's activities during the year.

Changes in accounting policies also change the balance sheet. The Province has set up several new accounts to reflect these changes. Because these did not exist in earlier years, the balance sheet for 1993-94 is not comparable to previous ones.

#### Assets

The balance sheet records the financial resources that the Province has available to it, such as cash and short-term investments. Under the new accounting policies it also records items that the Province can expect to turn into cash within one year ("accounts receivable"), and payments the Province has made for goods or services not yet received ("prepaid expenses"). Accounts receivable amount to \$2,164 million and prepaid expenses, \$407 million.

A major long-term asset on the balance sheet is the Province's "investment in government enterprises," recorded at \$1,804 million. This is a direct result of consolidation. The box on page 7 describes the accounting behind it.

The Province also owns directly a range of real assets, from provincial parks to highways and bridges. As well, it helps to pay for hospitals, schools, and other public facilities. These costs now count as operating spending. The discussion starting on page 11 outlines how the Province might better account for this spending in the future to reflect the investment it is making. As the Province begins to account separately for its capital investments, the assets it reports on its balance sheet will increase and the accumulated deficit will fall by the same amount.

## Liabilities

The main impact of the change to accrual and consolidation accounting has been to add new liability items to the balance sheet. This section explains what counted as liabilities under the old accounting method, how those have changed, and what new items have appeared.

**Liabilities previously reported:** Under modified cash accounting, the Province's liabilities for its own purposes consisted of its direct debt, money deposited with the Province of Ontario Savings Office (POSO), and a small amount of other liabilities. The move to accrual and consolidation has not changed any of these figures significantly, as Table V shows.

TABLE V. 1994 PROVINCIAL LIABILITIES (\$ Millions)		
	Previous Public Accounts Basis	Current Public Accounts Basis
Direct debt	\$77,572	\$76,714
POSO deposits	2,046	2,059
Other liabilities	567	666
Total	\$80,815	\$79,439
New Items:		
Accounts payable and accrued liabilities		7,413
Pensions		6,779
Total Liabilities	\$80,185	\$93,631

**New balance-sheet items:** The move to accrual and consolidation adds two new liability items -- "pensions" and "accounts payable and accrued liabilities." The balance sheet reports higher total liabilities for the Province because these new items are included for the first time. However, they were reported in previous Public Accounts in the notes to the statements and elsewhere.

**Pensions:** Ontario contributes to various public-sector pension plans. The Public Sector Accounting and Auditing Board requires that management — in this case, the Province — must put its best estimate of its pension liability on the balance sheet. To do this, management has an independent expert, called an actuary, estimate the difference between the assets the funds have today and what they will need to meet future commitments to pensioners. The estimate uses management's assumptions about future interest rates, inflation and salaries.

Based on the actuary's work, the Province has recorded an estimate of \$6,779 million at March 31, 1994 for the pension liability. Previously, the notes to the financial statements gave an estimate prepared by an actuary for a different purpose -- to come up with funding needs -- which used more conservative assumptions and resulted in a higher figure. The figure would have been \$9.8 billion at March 31, 1994. This change in the liability generally happens when these new rules are followed.

Accounts payable and accrued liabilities: These are claims on the Province that it will settle, usually within one year. Under modified cash, many of these were either counted as expenses in the statement of revenue and spending or were discussed in the notes to the statements. Now they appear on the balance sheet. The amount is \$7,413 million.

### Accumulated deficit

The "accumulated deficit" reported in the financial statements is similar to the "shareholders' equity" section of a company's balance sheet. However, there are important differences.

A company's balance sheet shows its long-term assets, which helps to offset debt that was used to buy them. The Province's current accounting treatment doesn't allow for that. If it did -- and the Province intends to move in that direction -- assets would rise and the accumulated deficit would fall by the same amount. The discussion starting on page 11 outlines how the Province might better account for spending on capital.

As the statements appear this year, the accumulated deficit does not reflect the benefit of including long-term assets such as highways and government buildings on the balance sheet. It simply represents past spending to provide services and build assets when revenues didn't meet those needs.

The accumulated deficit is calculated by subtracting "total assets" as reported in the Statement of Financial Position from "total liabilities". As a result of the change in accounting policies, both reported assets and liabilities grew. Because the increase in liabilities was greater, the net impact has been to increase the Province's accumulated deficit by \$7.6 billion.

As well as the one-time change resulting from the move to accrual and consolidation, there was the usual increase in the accumulated deficit that follows from adding the year's deficit. Table VI gives the impact of each of these changes.

TABLE VI. CHANGE IN ACCUMULATED E (\$ MILLIONS)	DEFICIT	
Accumulated deficit, end of 1993	\$61,796	(previous basis)
Adjustments related to change in accounting		
Pensions	6,435	
Other	1,166	
Total Adjustments	7,601	
Accumulated deficit, start of 1994	\$69,397	(current basis)
Add: 1994 deficit	10,848	
Accumulated deficit, end of 1994	\$80,245	

In Table VI, the adjustment at the start of the year resulted from the Province deciding to apply the new accounting principles as though they had always been in place. This means that even though earlier years' results have not been restated on the new accounting basis, the accumulated deficit figure reflects what the impact would have been if the new principles had been in place for many years.

About 85 per cent of the adjustment to the accumulated deficit comes from moving the unfunded pension liability onto the balance sheet. The pension liability represents an accumulation of short-falls in funding since the pensions were created, but especially since the high-inflation years of the 1970s and 1980s. In the past five years the funds have had a higher return on assets and inflation has been lower than expected, with the result that the estimated liability has been relatively stable. Even though this is the first year the pension liability number is on the balance sheet, the commitment itself has existed for several years.

#### BUILDING ONTARIO: HOW TO ACCOUNT FOR CAPITAL

All across Ontario, people are at work building public assets that provide services and help the economy to grow. A lot of the money for these assets — schools, hospitals, highways, bridges — comes from the provincial government.

The Province's Budget underlines the importance of this activity by separating its spending on capital from its spending on programs and debt interest.

That's similar to the approach used in the private sector, where capital is considered so different from day-to-day operations that spending on it is recorded differently.

The Province recognizes that this approach makes sense for governments, too. In future financial statements, as well as its Budgets, Ontario intends to report its capital spending separately from spending on operations.

In the 1994 statements the two types of spending are reported together. Separating them would give people in Ontario a better picture of how Government spends money.

## Why two different kinds of spending?

Companies consider capital and operating spending to be different because capital spending buys or builds something that will last for many years. Spending on operations goes towards overhead costs such as utilities, office supplies, salaries, and assets with a shorter life.

A company's long-term assets typically include factories, machinery, computers, cars and trucks. When a firm buys one of these assets the cost doesn't show up as an operating expense on its income statement. It doesn't reduce the firm's net income.

What a company spends on capital shows up as its long-term assets on its balance sheet. Listing these assets on one side of the balance sheet offsets debt on the other side that helped pay for them. Having assets on the balance sheet also records the fact that they were bought with several years' service in mind.

Even though the full cost of an asset doesn't go through the income statement when it's bought, it does get recorded over time. Every year, the firm has an expense called "depreciation," representing part of the original cost of the asset, that lowers its value on the balance sheet. This practice of reporting capital spending separately and counting as an expense only part of an asset's value every year is called "capitalizing and depreciating assets".

## Moving to a new accounting treatment

Ontario intends to follow a similar practice in its accounting for capital. The reason is the same as for a company: the assets the Province pays for will serve Ontarians for many years.

Putting capital spending through the operating statement — as the current financial statements do — ignores that. Right now the financial statements don't show clearly what the Province spends on either its directly owned assets or for schools, hospitals, and other assets it helps to fund, even though the Budget does. Once assets are built there is no record of them in the government's balance sheet.

Giving a fuller picture and making it easier to carry out capital projects on a business-like basis were the reasons the Province changed the way it organizes the Budget, starting with the 1991-92 fiscal year. Having a separate capital and operating Budget has allowed the Province to highlight its firm commitment to capital through the recession, when it gave immediate support to thousands of jobs, improved public services, and made the economy more productive.

#### Ontario's approach, and its impact

Now Ontario wants to bring those same benefits to its financial statements. But putting government assets on the balance sheet means having to deal with a number of questions, such as: Which assets should be included? How much are they worth? How long will the assets last? How much depreciation should the Province charge? What about assets that are funded in large part by capital grants from the Province?

Under current rules that the Public Sector Accounting and Auditing Board (PSAAB) has drawn up, giving funds to other bodies such as school boards, hospitals, colleges and municipalities to build long-term assets would be considered an operating expense on the Province's books.

Because the Province funds a large part of the costs of these assets and has a say in how they are used, Ontaric believes it makes sense to show its share of the assets on its balance sheet. In this treatment, spending on assets — whether directly or through capital grants — would not be a day-to-day expense, but would be reported separately.

Ontario hasn't made the necessary changes to the Public Accounts this year because the parties involved are still working on the underlying issues.

PSAAB recently set up a task force to sort out the issues in public-sector accounting for capital spending. The Province will continue to work with PSAAB and others to come up with rules that make sense for governments.

#### **CONDENSED FINANCIAL INFORMATION**

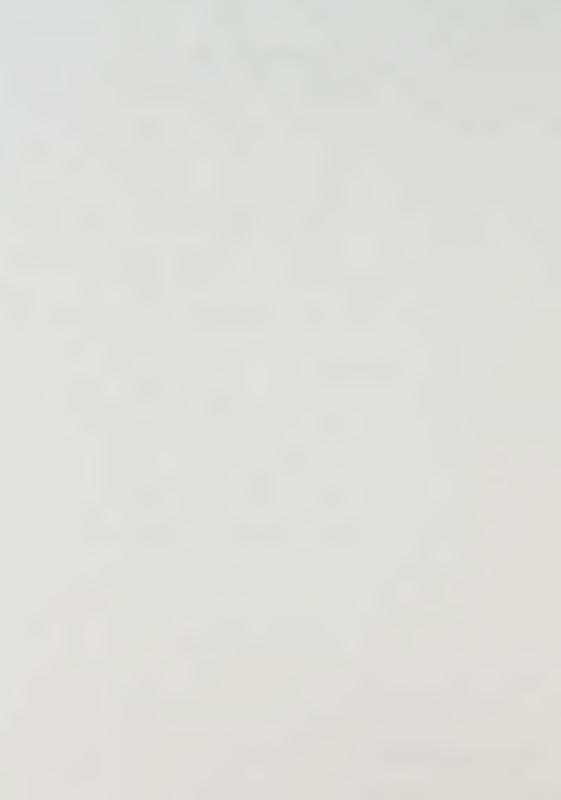
The following tables use material from the Financial Statements in the 1993-94 Public Accounts. The Accounts contain more detailed and technical material, including a complete outline of the Province's accounting policies, footnotes and schedules to the statements, and a letter from the Provincial Auditor stating that in his opinion the Financial Statements present fairly the Province's financial position and results.

Statement of Operations and Accumulated Deficit

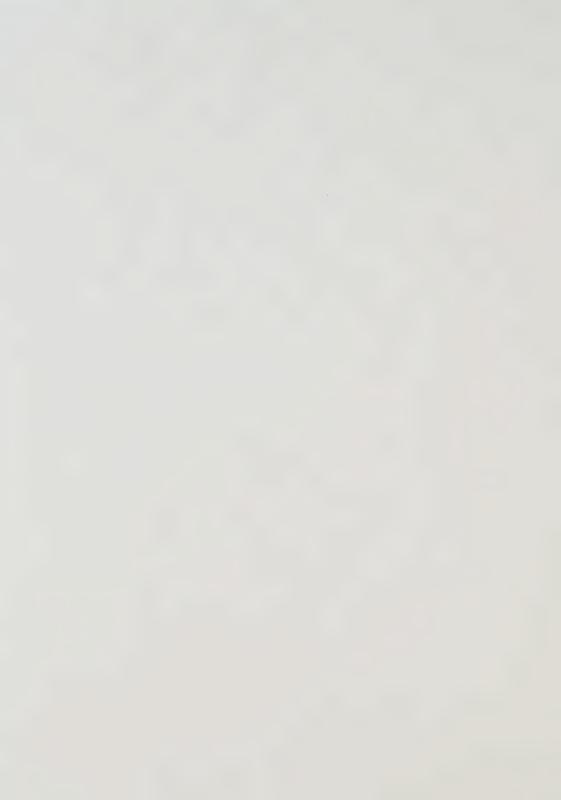
Province of Ontario				
For the year ended March 31, 1994				
(\$ millions)	1994			
Revenue				
Personal Income Tax	14,723			
Retail Sales Tax	8,124			
Corporations Tax	3,447			
Employer Health Tax	2,665			
Gasoline Tax	1,907			
Other Taxes	<u>1,793</u>			
Total Taxation	32,659			
Government of Canada	7,071			
Investment in Government Enterprises	765			
Other Revenue	3,179			
	43,674			
Expenses				
Health	17,684			
Social Services	10,413			
Education and Training	9,340			
Public Debt Interest	7,129			
Resources and Economic Development Justice	6,811			
General Government	1,973 1,172			
General Government	54,522			
Deficit	10,848			
Deficit	10,040			
Accumulated Deficit				
Balance, beginning of year	61,796			
Adjustment to opening balance				
-Change in Basis of Accounting	7,601			
Adjusted balance, beginning of year	69,397			
,				
Balance, end of year	80,245			

#### STATEMENT OF FINANCIAL POSITION

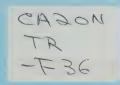
Province of Ontario	
As at March 31, 1994 (\$ millions)	1994
Liabilities for Provincial Purposes	
Accounts Payable and Accrued Liabilities	7,413
Debt Issued for Provincial Purposes	76,714
Deposits with the Province of Ontario Savings Office	2,059
Pensions	6,779
Other Liabilities	666
Total Liabilities for Provincial Purposes	93,631
Debt Issued for Ontario Hydro	4,537
	98,168
Financial Assets	
Cash and Temporary Investments	8,503
Accounts Receivable	2,164
Loans Receivable	508
Prepaid Expenses and Other Assets	407
Investment in Government Enterprises	1,804
Advances to Ontario Hydro, Secured by Bonds	4,537
	17,923
Accumulated Deficit	80,245













Ministry of Finance

# 1995-1996

# Province of Ontario Annual Report

Please address your comments on this report to:

The Honourable Ernie Eves, Q.C. Minister of Finance
7th Floor
Frost Building South
7 Queens Park Crescent
Toronto, Ontario
M7A 1Y7

You can also send your comments to the Minister by electronic mail at: fincom@epo.gov.on.ca

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# Message from the Honourable Ernie Eves, Minister of Finance

I am pleased to present the 1996 Annual Report of the Province of Ontario for the fiscal year ended March 31, 1996, which highlights the major financial achievements of the province and presents a summary of financial information.

The 1995-96 Public Accounts, which I am submitting to the Legislature along with this report, include the province's financial statements, the Provincial Auditor's opinion on these statements and more detailed financial information.

The results shown in the financial statements reflect this Government's efforts to bring the deficit under control. I am pleased to report that the actual deficit for 1995-96 is \$8.7 billion, which is below the \$9.3 billion forecast in November, 1995 and below the \$9.1 billion interim figure presented in the 1996 Ontario Budget. The improvement in Ontario's fiscal position reflects the results of this government's measures to get spending under control, the ongoing prudence used in setting financial targets and the province's improving economy.

The actual deficit for 1995-96 is a full \$2.5 billion lower than the \$11.2 billion we faced on taking office. The reduction reflects both the decisions taken at that time to reduce spending and the deficit, as well as an improving economy. We remain committed to balancing the province's books in the fiscal year 2000-01. To that end, we will continue to examine every government program to ensure taxpayers are getting good value for their tax dollars.

This government's first Annual Report increases the financial information provided to the people of the province, as recommended by the Ontario Financial Review Commission (OFRC). This report presents condensed financial statements, with a comparison to the November 1995 fiscal plan on the basis of accounting recommended for governments across Canada. As the OFRC recommended, we are reporting on the province's financial and economic performance against the goals we set. We want all Ontarians to have access to full information on our province's fiscal position.

I welcome any comments or suggestions you may have on the contents of this report. Please send your comments to my office, at the address listed on the inside cover of this report.

Yours sincerely,

Ernie Eves, Q.C. Minister of Finance

Toronto, September 1996

## The Year in Review

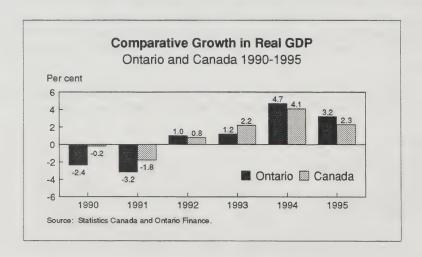
A steadily improving economy in the second half of 1995, lower interest rates and an active fiscal strategy on the part of the government to control the deficit over the course of the fiscal year led to a \$1.403 billion decline in the 1995-96 deficit of \$8.726 billion, from a deficit of \$10.129 billion in 1994-95. Total revenues increased \$2.320 billion largely due to higher tax revenues, which increased by \$1.857 billion as the Ontario economy continued to grow in 1995.

1995-96 Fiscal Highlights (\$ millions)	1994-95	1995-96
Revenue	46,039	48,359
Expenses	56,168	57,085
Deficit	10,129	8,726

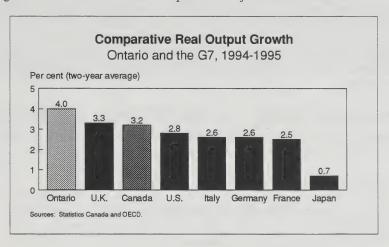
# **Economic Highlights**

#### Real Gross Domestic Product Growth

The Ontario economy grew by 3.2 per cent in 1995, the second strongest among the provinces and well above the national average. Underlying this growth is an economy that has restructured to become more competitive with higher productivity, low inflation and a more competitive dollar.

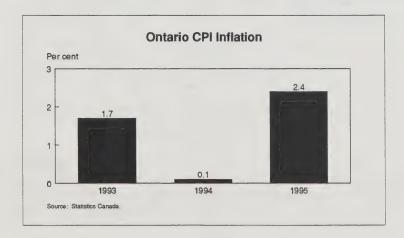


The major sources of economic growth in Ontario during 1995 were increased business investment in machinery and equipment, up 13.7 per cent, and exports, up 9.9 per cent. Consumer spending also contributed modestly to economic growth, rising by 1.6 per cent. Ontario's growth in 1994 and 1995 also outpaced all major industrial nations.



#### **CPI** Inflation

Ontario's inflation rate, as measured by the change in the consumer price index (CPI), was 2.4 per cent in 1995. The pick-up in inflation in 1995 reflected the delayed impact of higher import prices due to the decline in the value of the Canadian dollar. The 1994 tobacco tax cut had the effect of lowering CPI inflation by 1.3 percentage points, resulting in a CPI increase of only 0.1 per cent for that year.

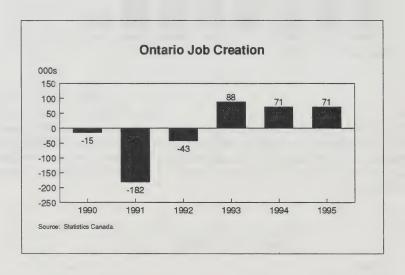


#### **Employment**

Ontario created 71,000 jobs in 1995, matching the pace of 1994. The private sector created 116,000 jobs, the strongest gain since 1988, while the public sector lost 45,000 jobs.

Most of the employment increase in 1995 was in the manufacturing sector, with 71,000 new jobs, followed by the community business and personal services sector, up 34,000 new jobs, the transportation, communication and utilities sector, up 22,000 new jobs, and the finance, insurance and real estate sector, up 13,000 new jobs. Job losses were concentrated in public administration (down 33,000), construction (down 20,000) and the wholesale and retail trade sectors (down 18,000).

Ontario's unemployment rate averaged 8.7 per cent in 1995, down almost a full percentage point from 1994.



## **Financial Highlights**

#### **Basis of Accounting**

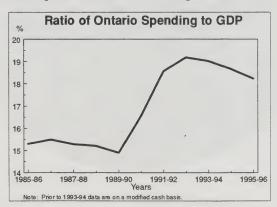
This year, for the first time, the fiscal plan was produced on the basis of accounting recommended by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, which is the same basis used for the preparation of the financial statements. This implements recommendations made by the Provincial Auditor and the Ontario Financial Review Commission. Ontario's taxpayers can now compare the government's plan with the actual results, knowing that changes between the two are not brought about by differences in accounting bases.

#### Revenue Highlights

Total revenues increased by \$2.320 billion or five per cent from the 1994-95 level, largely due to the growth in the Ontario economy. This growth led to increases in personal, retail and corporations tax revenues. Increases in tax revenue accounted for \$1.857 billion of the \$2.320 billion increase over the previous year's results.

#### Expense Highlights

Total expenses increased by \$917 million from 1994-95 levels, largely due to \$1.352 billion in expenses relating to government restructuring and other charges. After excluding these charges and provincial debt interest cost, total spending declined in 1995-96 by \$858 million, or 1.8 per cent, from the previous year. Improved spending performance is largely due to the measures introduced by the government on July 21, 1995 and announced by the Chair of Management Board on September 28, 1995. As a share of gross domestic product, total spending has declined from a high of 19.2 per cent in 1992-93 to 18.2 per cent in 1995-96.

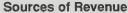


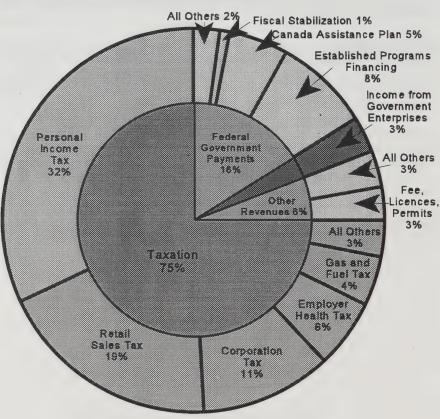
#### Deficit Highlights

The deficit for 1995-96 of \$8.726 billion decreased by \$1.403 billion, from the 1994-95 deficit of \$10.129 billion. This improvement is due to the government actions and the generally improving economy, as discussed above.

# Sources of Revenue

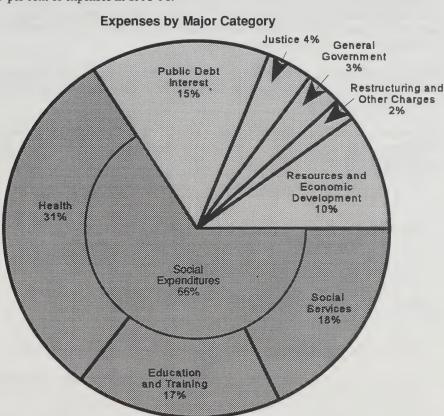
Total revenue for 1995-96 was \$48.359 billion. Tax revenue accounted for 75 per cent of total revenue, federal transfers for 16 per cent, other revenue for 6 per cent and income from government enterprises for 3 per cent.





# **Expenses**

Total Ontario government expenses for 1995-96 were \$57.085 billion. Approximately two thirds of the total relates to social expenses, including health, education and social services. Interest on the province's outstanding debt accounted for 15 per cent. Resources and economic development, justice, general government expenses and restructuring charges accounted for the remaining 19 per cent of expenses in 1995-96.



The government maintained its commitment to provide at least \$17.4 billion in health-care spending by spending \$17.8 billion in 1995-96, 31 per cent of total spending. The commitment to protecting the quality of classroom-based education was also met with 1995-96 education savings achieved through administrative efficiencies.

The government has also taken measures to ensure that the social assistance system is affordable, and that it supports only people who are truly in need. Compared with the previous year, expenses were down by \$447 million during 1995-96 largely due to a reduction in benefits rates, measures to combat fraud and tighten eligibility, and improved economic conditions.

#### Managing Expenses

The government has adopted business planning as an important component of its expense management process. Each ministry has developed a business plan that defines its core businesses, identifies key strategies to deliver programs in support of its core businesses in a more effective and efficient manner, and provides suggested direction for performance measures to gauge performance against stated objectives.

With the focus placed on the core business of government, program spending is being reduced by eliminating non-essential programs and finding more cost-effective ways to carry out the priority roles of government.

The province's finances are already beginning to reflect the government's approach to expense management. Total spending in 1995-96, excluding public debt interest and restructuring and other charges, declined by \$858 million from 1994-95.

# Overachieving the 1995-96 Deficit Reduction Target by \$582 million

#### Change in Deficit

The deficit for 1995-96, at \$8.726 billion, overachieved the November 1995 fiscal plan deficit target by \$582 million. The difference relates in part to the improving Ontario economy in the second half of 1995, as well as to refinements of interim estimates made at the time of the 1996 Budget. The final audited deficit figure reflects these improvements.

#### Changes in Revenue

Total revenue was \$1.573 billion above the November fiscal plan level. This reflected the combination of the cautious nature of the November revenue projection, the receipt of a \$367 million fiscal stabilization payment from the federal government and increases as a result of refining the year-end estimate of receivables for taxes and the Family Support Program.

#### Tax Revenue

Tax revenue was \$884 million above the November projection, largely due to stronger-than-projected economic growth. Strong corporate profit growth pushed Corporations Tax revenue up by \$584 million above the November outlook. The remaining \$300 million increase in tax revenues reflects the following changes:

- Personal Income Tax revenue was \$183 million above the November projection due to year-end adjustments to improve the estimate of personal income tax owing for 1995-96;
- Retail Sales Tax revenue was \$69 million higher, reflecting both a cautious forecast and stronger economic growth in the last quarter of 1995-96;
- Employer Health Tax revenue was \$75 million higher, reflecting both a cautious forecast and stronger-than-projected growth in total wages and salaries during the year; and
- Revenues from all other taxes were \$27 million below the November outlook.

## Transfers from the Government of Canada

Total payments of \$7,645 million were \$343 million higher than the November estimate, due primarily to the receipt of a final settlement under the Fiscal Stabilization program of \$367 million for the province's 1992-93 claim. Excluding this final settlement, transfers from the Government of Canada actually dropped by \$24 million. This drop was primarily made up of:

- Established Programs Financing payments decreased by \$90 million, partially offsetting higher Personal Income Tax revenues; and
- Payments under the Canada-Ontario Infrastructure Works program were \$64
  million higher than the fiscal plan forecast, due to faster than anticipated project
  completions during the 1995-96 fiscal year. However, overall project costs have
  not increased.

#### Other Revenue

Other revenue was \$279 million above the November projection. The increase in revenues was primarily as a result of improving the year-end estimate of receivables under the Family Support Plan by \$312 million. A decrease in revenues of \$31 million from other fees and licenses partially offset this increase.

#### Income from Government Enterprises

Income from government enterprises was \$67 million above the November projection. This gain largely reflected the reclassification of the Ontario Realty Corporation (ORC) as a government service organization rather than as a government enterprise, as recommended by the Ontario Financial Review Commission. As a result, the ORC's net loss of \$75 million estimated in the November fiscal plan was no longer included in this category, but instead its revenues and expenses were consolidated on a line-by-line basis in the financial statements of the province. Other changes include income from the Casino Corporation and the Ontario Lottery Corporation, which came in at \$22 million and \$26 million respectively higher than forecast, offset by an increase in net losses of GO transit of \$38 million.

#### Changes in Expenses

Expenses were \$991 million above the November fiscal plan, mainly as a result of \$1.352 billion in expenses arising from government restructuring decisions made during the fiscal year and other charges.

Apart from the restructuring and other charges, total expenses were \$361 million below the level projected in the fiscal plan. Key sources of savings included:

- \$714 million in lower-than-forecast public debt interest expenses resulting from contingencies which proved to be too cautious, as well as lower-than forecast interest rates and cash requirements;
- \$180 million in lower health spending due to a refinement of expense requirements in a number of areas; and
- \$161 million in reduced Ontario Public Service pension expense arising from the adoption of the government's best estimates of inflation, return on investment and salary escalation rates instead of the pension plan administrator's estimates of these factors.

The above savings more than offset expenses that were above levels originally projected in the November fiscal plan, including:

- \$271 million provision for Family Benefit Reimbursement against the recovery of family support payments (included in revenue). Net impact on the deficit is a reduction of \$41 million;
- \$172 million primarily due to a provision for pension increases resulting from a Teachers' Pension Plan Board review of all pensions currently being paid;

- \$136 million increased costs for loan provisions for a larger than expected increase of recipients under the Ontario Student Assistance Plan (OSAP) and \$34 million for bad debts under OSAP; and
- \$132 million increase in the Province's liability under the Canada-Ontario Infrastructure Program to recognize costs incurred by local partners which had not been reimbursed by the province prior to year-end.

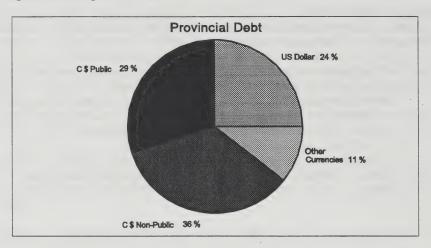
#### Restructuring and Other Charges

Based on decisions made by the government during the year, the results for 1995-96 include a charge of \$1.352 billion. This amount consists of:

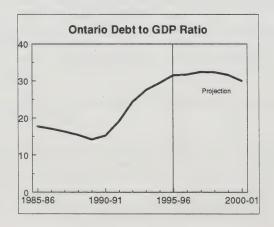
- \$454 million increase in the provision for early retirement pension option for civil servants, reflecting the increased take-up of this option;
- \$400 million in employee severance charges (including net pension costs);
- \$310 million provision to reflect a landmark decision of the courts affecting corporate taxation issues for the oil, gas and mining industries;
- \$128 million in social housing cancellation costs;
- \$30 million for termination of the former MPP pension plan; and
- \$30 million for the costs of suspending construction of the Eglinton West subway.

## Ontario's Debt

Provincial debt totalled \$98.6 billion at March 31, 1996. The majority of the debt (\$64.4 billion or 65 per cent) was issued in Canadian dollars. At March 31, 1996 all but \$1.4 billion of debt issued in other currencies had been converted into debt in Canadian dollars through the use of risk management techniques.



Provincial debt as a percentage of Gross Domestic Product rose to 31.5 per cent in 1995-96 from 29.4 per cent in 1994-95. The government expects this ratio to turn around in future years, as the deficit reduction measures take effect.



#### **Financing**

Approximately one third of the debt (\$32.6 billion) is held as non-marketable debentures by Ontario's public sector pension funds and by the Canada Pension Plan Investment Fund.

In 1995-96, the province's net borrowing was \$10.007 billion. Total borrowing was \$12.160 billion, of which \$2.153 billion was used to repay maturing debt, consisting mainly of \$833 million for public debt retirements, \$784 million for the Canada Pension Plan, \$198 million for the Ontario Teachers' Pension Plan, \$182 million for the Ontario Municipal Employees' Retirement Fund, and \$92 million for the Public Service Pension Plan. In addition, cash and temporary investments increased by \$3.325 billion.

While the Canadian domestic market remained the primary source of funds in 1995-96 (\$6.597 billion), the Ontario Financing Authority (OFA) continued to diversify its use of financing instruments and markets on behalf of the province. The OFA sought to take advantage of the most favorable conditions when choosing markets and timing, within its overall prudent public finance policy framework. This meant that borrowing was achieved in a cost-effective manner, while maintaining a prudent risk-profile for the province. Taking advantage of a strengthening Canadian dollar in international markets, the OFA launched the first Canadian Dollar Global bond issue since 1994. In addition, U.S. Dollar Global, Swiss Franc, Australian Dollar and Deutsche Mark bonds were issued, as well as bonds designed to appeal to retail investors in Canada and Japan.

Lower interest rates also enabled the OFA to reduce interest costs for new issues and refinancings. Some maturing debt had interest rates as high as 13 per cent; this debt has been refinanced with long-term Canadian interest rates as low as 7.5 per cent. The weighted average interest rate on the debt issued for provincial purposes in 1995-96 was 9.36 per cent, lower than the 9.77 per cent rate in 1994-95.

#### Prudent Debt Management

As a government agency, the OFA follows prudent practices in managing the province's debt. Risk-management activities are governed by strict policies and procedures limiting Ontario's exposure to interest rate and currency fluctuations.

Although \$34.2 billion (or 35 per cent) of Ontario debt has been issued in foreign currencies over the years, transactions have been entered into that have eliminated all but \$1.4 billion of Ontario's exposure to foreign currencies. Ontario's interest rate exposure was also very low. At March 31, 1996, the percentage of floating rate debt to total debt was 9.5 per cent.

Ontario maintains equally prudent policies with respect to credit, liquidity and refinancing risk. The OFA measures and monitors compliance with all these policies on a regular basis, through a structure that separates monitoring from execution of transactions. For more details, please refer to the Notes to the Financial Statements in the Public Accounts.

#### Ontario Hydro

The province has also borrowed on behalf of Ontario Hydro in the United States and from the Canada Pension Plan. Securities directly issued by Ontario Hydro are guaranteed by the province.

During 1995-96, provincial debt issued for Ontario Hydro fell by \$27 million to \$3.808 billion from \$3.835 billion at March 31, 1995. Ontario Hydro debt guaranteed by the province also fell during the period by \$2.484 billion to \$29.077 billion from \$31.561 billion. The combined decrease of \$2.511 billion in Ontario Hydro debt represents the significant improvement in the financial position of Ontario Hydro as a result of restructuring over the past two years.

The OFA coordinates financing with Ontario Hydro to take advantage of financing opportunities in both Canadian and international capital markets.

# **Five-Year Review of Selected Financial and Economic Statistics**

(\$ MILLION)	1991-92 <sup>1</sup>	1992-93¹	1993-94 <sup>2</sup>	1994-95	1995-96
REVENUE	40,753	41,807	43,674	46,039	48,359
EXPENSES:					
Programs and Capital	47,487	48,942	47,747	48,336	47,478
Public Debt Interest	4,196	5,293	7,129	7,832	8,255
Restructuring and Other Charges					1,352
TOTAL EXPENSES	51,683	54,235	54,876	56,168	57,085
DEFICIT	10,930	12,428	11,202	10,129	8,726
Ontario's debt					
Debt issued for provincial purposes	50,618	66,101	76,714	85,711	95,598
Province of Ontario Savings Office					
and other deposits	2,040	2,068	2,059	2,089	2,220
Other liabilities	425	438	666	780	769
Total Ontario Debt	53,083	68,607	79,439	88,580	98,587
Ontario Hydro					
Debt incurred by the province	6,933	6,717	4,537	3,835	3,808
Contingent Liabilities					
Hydro	28,065	32,411	31,789	31,561	29,077
Other	2,304	2,246	2,219	2,221	2,555
Gross Domestic Product					
(GDP) at Market Prices	278,463	282,803	288,569	301,082	313,319
Personal Income per Capita					
(dollars)	23,469	23,570	23,411	23,638	24,093
Total Ontario Debt as a					
per cent of GDP	· 19.1	24.3	27.5	29.4	31.5

<sup>&</sup>lt;sup>1</sup> Financial information for 1991-91 and 1992-93 is provided on a modified cash basis.

 $<sup>^2</sup>$  The previously reported deficit of \$10,848 million has been adjusted by \$354 million to \$11,202 million to reflect accounting changes.



# 1995-1996

# **Condensed Financial Statements**

# Opinion of the Provincial Auditor on the Condensed Financial Statements of the Province of Ontario

#### To the Minister of Finance:

I have audited, in accordance with generally accepted auditing standards, the statement of financial position of the Province of Ontario as at March 31, 1996 and the statements of operations and accumulated deficit and changes in financial position for the year then ended. In my Auditor's Report to the Legislative Assembly dated September 16, 1996, I expressed an unqualified opinion on those financial statements. My audit report and the financial statements are included in the 1995-96 *Public Accounts of Ontario*.

In my opinion, the accompanying condensed financial statements have been accurately extracted from the aforementioned financial statements of the province.

Erik Peters, FCA Provincial Auditor

Eigh Petro

Toronto, Ontario September 16, 1996

# **Management Representation**

The condensed financial statements are extracted from the audited financial statements of the province which are in compliance with legislation, and use accounting principles as recommended by the Public Sector Accounting and Auditing Board. The government accepts responsibility for the objectivity and integrity of the financial statements. The financial statements have been audited by the Provincial Auditor of Ontario and are included in the 1995-96 Public Accounts of Ontario.

The government is also responsible for maintaining systems of financial management and internal control to ensure with reasonable certainty that the transactions recorded in the financial statements are within statutory authority, assets are properly safeguarded, and financial records are reliable in preparation of the province's financial statements.

Michael L. Gourley
Deputy Ministry of Finance

September 16, 1996

Bob Christie Controller

September 16, 1996

# **Statement of Financial Position**

Province of Ontario				
As at March 31	4006	100		
(\$ millions)	1996	1995		
Liabilities for Provincial Purposes				
Accounts Payable and Accrued Liabilities	10,460	8,575		
Debt Issued for Provincial Purposes	95,598	85,711		
Deposits with the Province of Ontario Savings Office	2,220	2,089		
Pensions	8,189	7,467		
Other Liabilities	769	780		
Total Liabilities for Provincial Purposes	117,236	104,622		
Debt Issued for Ontario Hydro	3,808	3,835		
	121,044	108,457		
Financial Assets				
Cash and Temporary Investments	11,407	8,082		
Accounts Receivable	2,795	2,853		
Loans Receivable	304	433		
Prepaid Expenses and Other Assets	791	581		
Properties Held for Sale	371			
Investment in Government Enterprises	2,114	1,945		
Advances to Ontario Hydro, Secured by Bonds	_3,808	3,835		
	21,590	17,729		
Accumulated Deficit	99,454	90,728		

# **Statement of Operations and Accumulated Deficit**

Province	of Ontario		
For the year ended March 31	Fiscal Plan <sup>1</sup>		
(\$ millions)	1996	1996	1995
Revenue			
Personal Income Tax	15,450	15,633	14,758
Retail Sales Tax	9,355	9,424	9,090
Corporations Tax	4,590	5,174	4,557
Employer Health Tax	2,620	2,695	2,640
Gasoline Tax	1,970	1,944	1,939
Other Taxes		1,446	1.475
Total Taxation	35,432	36,316	34,459
Government of Canada	7,302	7,645	7,607
Income from Government Enterprises	1,200	1,267	1,068
Other Revenue	2,852	_3,131	2,905
	<u>46.786</u>	48,359	46,039
Expenses			
Health	17,955	17,775	17,848
Social Services	10,689	10,439	10,607
Education and Training	9,196	9,761	9,421
Public Debt Interest	8,969	8,255	7,832
Resources and Economic Development	5,769	5,914	6,345
Justice	1,797	2,031	1,860
General Government	1,719	1,558	2,25
Restructuring and Other Charges		1,352	
	56,094	57,085	56,168
Deficit	9,308	8,726	10,129
A communicated Deficit			
Accumulated Deficit Balance, beginning of year		90,728	80,599
Balance, end of year		99,454	90,72

<sup>&</sup>lt;sup>1</sup> Fiscal Plan per 1995 Fiscal and Economic Statement, November 1995.

# **Notes to the Condensed Financial Statements**

#### Introduction

These notes are a brief summary of the accounting policies followed by the province relating to the Condensed Financial Statements. For more detailed notes on these accounting policies and for more extensive information on the financial position and results of operations of the province, the reader is referred to the audited financial statements included in the 1995-1996 Public Accounts of Ontario.

The financial statements of the province reflect accrual and consolidation accounting as recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA). These recommendations generally follow the practices recommended by the CICA for private and public corporations in Canada, except for the treatment of an entity's investment in physical assets. Current practice in governments is to charge the full cost of capital purchases to operations in the year of purchase or construction.

#### Reporting Entity

These financial statements report the activities of the Consolidated Revenue Fund combined with those of Crown corporations, boards and commissions which are owned or controlled by the government and which are accountable for the administration of their financial affairs and resources, either to a Minister of the Government or directly to the Legislature. A listing of the larger organizations included in the reporting entity is provided in the audited financial statements of the province.

Trusts administered by the government on behalf of other parties are excluded from the reporting entity.

## Principles of Consolidation

The activities of Crown corporations, boards and commissions, classified as government service organizations are consolidated on a line-by-line basis with the Consolidated Revenue Fund in the financial statements, and significant inter-organization accounts and transactions have been eliminated.

Government enterprises are defined as those Crown corporations, boards and commissions which have the financial and operating authority to carry on a business, and have as their principal activity and source of revenue, the selling of goods and services to individuals and non-government organizations. The net assets of government enterprises are included in the financial statements as Investment in Government Enterprises on the Statement of Financial Position and their net income is shown as a separate item on the Statement of Operations and Accumulated Deficit.

#### Basis of Accounting - Revenue

Revenues are recognized in the fiscal year that the events to which they relate occur.

Amounts received or receivable prior to the end of the year which relate to revenues that will be earned in a subsequent fiscal year, are reported as liabilities.

#### Basis of Accounting - Expenses

Expenses are recognized in the fiscal year that the events to which they relate occur.

Grants are recognized in the period during which both payment is authorized and any eligibility criteria are met.

The pension expense comprises the cost of pension benefits earned by employees during the year, interest on the pension benefits liability net of pension plan assets, pension benefits liability, amortization of the government's share of any experience gains or losses, less contributions made by the employees.

#### Liabilities

Liabilities are recorded to the extent that they represent obligations of the government to outside parties as a result of events and transactions occurring prior to the year-end.

Liabilities include probable losses on loan guarantees issued by the government, and contingent liabilities when it is likely that a liability exists and the amount can be reasonably determined.

#### Debt Issued for Provincial Purposes

Debt is comprised of Treasury bills, commercial paper, medium and long-term notes, savings bonds, debentures and loans.

The Province employs a variety of risk management strategies, including the use of derivative financial instruments. Derivative financial instruments ("derivatives") are financial contracts, the value of which is derived from underlying assets. Derivatives include swaps, forward rate agreements, forward currency contracts and futures. The Province uses derivatives only for the purposes of hedging (the practice of making or entering into offsetting commitments to minimize the impact of market fluctuations) and to minimize debt interest costs. Gains or losses arising from derivative transactions are deferred and amortized over the remaining life of the related debt issue.

Debt denominated in foreign currencies which has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the agreements. Other foreign currency debt, contingent liabilities and assets are translated to Canadian dollars at year-end rates of exchange and any exchange gains or losses are amortized over the remaining term to maturity.

Interest on Public Debt includes interest on outstanding debt, amortization of foreign exchange gains or losses, amortization of debt discounts or premiums, amortization of deferred hedging gains and losses and interest income on investments.

#### Pensions

The pension liability is calculated on an actuarial basis using the government's best estimates of future inflation rates, investment returns, employee salary levels, and other underlying assumptions. When actual plan experience differs from that expected, or when assumptions are revised, gains and losses arise. These are amortized and expensed over the average remaining service life of plan members.

### **Sources of Additional Information**

#### The Ontario Public Accounts

The 1995-96 Public Accounts of the Province of Ontario comprise the financial statements and three volumes:

- -Volume 1 contains the Consolidated Revenue Fund schedules and Ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.
- -Volume 2 contains the financial statements of significant provincial crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.
- -Volume 3 contains the details of expenses and the Ontario Public Service senior salary disclosure.

Copies may be obtained from Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8.

#### The Ontario Budget

The Ontario Government presents a Budget each year, usually in the spring. This document outlines expected expenses and revenue for the upcoming fiscal year. Copies may be obtained free from Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8.

#### The Estimates of the Province of Ontario

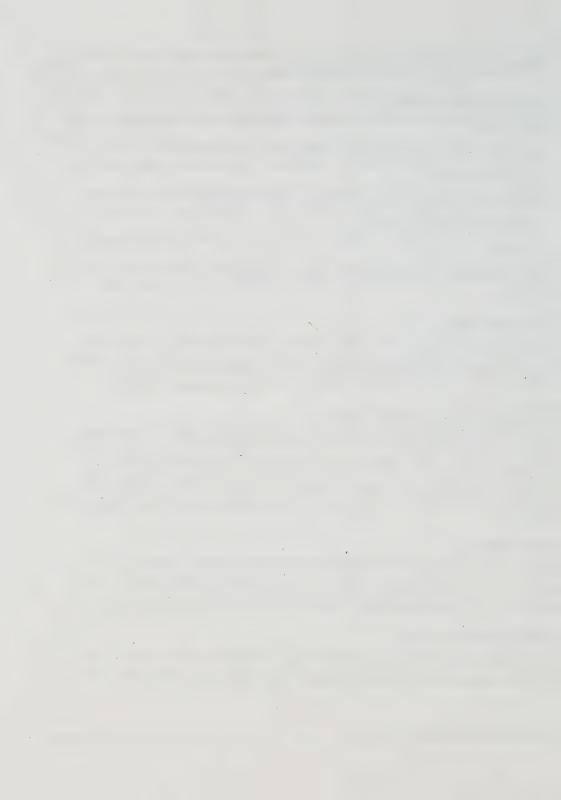
The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each Ministry that the Legislative Assembly will be asked to approve in the form of the *Supply Act*. Copies of the Estimates may be obtained free from Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8.

#### **Ontario Finances**

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Finance, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

#### **Ontario Economic Accounts**

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing to the Ministry of Finance, Office of Economic Policy, 5th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.









Ministry of Finance

# 1996-1997

# Province of Ontario



**Annual Report** 

Please address your comments on this report to:

The Honourable Ernie Eves, Q.C. Minister of Finance
7th Floor
Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

You can also send your comments to the Minister by electronic mail at:

fincom@epo.gov.on.ca

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Ce document est aussi disponible en français

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## Message from the Honourable Ernie Eves, Minister of Finance

I am pleased to present the 1997 Annual Report of the Province of Ontario for the fiscal year ended March 31, 1997. Our second Annual Report, like the first, highlights the government's financial achievements and presents a summary of financial information.

The 1996-97 Public Accounts, which I am submitting to the Legislature along with this report, include the province's financial statements, the Provincial Auditor's opinion on these statements and more detailed financial information.

For the second year in a row, the financial statements show that we are achieving even more than we promised in our plan to cut the province's deficit. I am pleased to report that the actual 1996-97 deficit was \$6.9 billion, down \$1.9 billion from the 1995-96 deficit and \$1.3 billion less than had been projected in the 1996 Ontario Budget. Prudent and cautious forecasting contributed to the deficit being significantly lower than projected.

A substantial reduction in expense from 1995-96 reflects the impact of the expenditure control measures announced in the latter half of 1995.

We are turning the corner on the deficit and are set to meet our commitment to balancing the province's books in the fiscal year 2000-01.

As well, we remain committed to giving all Ontarians access to information on our province's fiscal position, and on the government's financial and economic performance compared to the goals we set.

Yours sincerely,

Ernie Eves, Q.C. Minister of Finance

Toronto, September 1997

### The Year in Review

In keeping with the government's plan to balance the Budget by the year 2000-01, the deficit continued its downward track, falling from \$8.8 billion in 1995-96 to \$6.9 billion in 1996-97. For the second consecutive year, the government's deficit target has been surpassed. In 1995-96, the deficit target of \$9.3 billion was bettered by \$508 million; in 1996-97, the actual deficit was \$1.3 billion below the 1996 Ontario Budget target of \$8.2 billion.

1996-97 Fiscal Highlights (\$ billions)	1995-96	1996-97
Revenue	49.5	49.5
Expense	58.3	56.4
Deficit	8.8	6.9

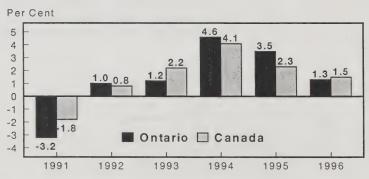
### **Economic Highlights**

#### Real Gross Domestic Product (GDP) growth

The Ontario economy grew by 1.3 per cent in 1996, following growth of 3.5 per cent in 1995. Growth moderated in calendar year 1996, largely because of slower export growth and a drawdown of business inventories. Economic activity in Ontario accelerated in the final quarter of fiscal year 1996-97 (January - March 1997) with real GDP advancing by 6.3 per cent at annual rates.

# Comparative Growth in Real GDP

Ontario and Canada 1990 - 1996



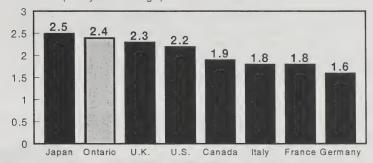
Sources: Statistics Canada and Ontario Ministry of Finance

The major sources of economic growth in Ontario during 1996 were increased business investment in machinery and equipment, up 13.2 per cent; housing, up 13.5 per cent; and non-residential construction, up 6.7 per cent. Consumer spending and exports also contributed to economic growth, rising by 1.8 per cent and 3.3 per cent, respectively. Ontario's growth in 1995 and 1996 outpaced all major industrial nations, except Japan.

### Comparative Real Output Growth

Ontario and the G7, 1995 and 1996

Per Cent (two-year average)

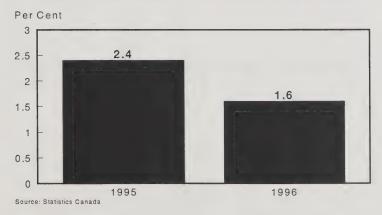


Sources: Statistics Canada and the OECD.

#### Consumer Price Index inflation

Ontario's inflation rate, as measured by the change in the consumer price index (CPI), was 1.6 per cent in 1996, down from 2.4 per cent in 1995. For 1996, reduced inflation resulted from a stronger Canadian dollar, plus the continued absence of price pressures in the highly competitive Ontario economy.

### Ontario Consumer Price Index Inflation



#### **Employment**

Ontario created 80,000 jobs in 1996, up from 71,000 jobs created in 1995. The private sector created 90,000 jobs, while the public sector lost 10,000 jobs.

The largest employment gains in 1996 were in the wholesale and retail trade sector, with 44,000 new jobs, followed by the business and personal services sector, up 30,000 new jobs, and the manufacturing sector, up 16,000 new jobs.

The labour force grew by 107,000 persons in 1996, compared to an increase of 25,000 in 1995, as improving job prospects led to higher rates of labour force participation. This caused Ontario's unemployment rate to rise to 9.1 per cent in 1996, from 8.7 per cent in 1995.

#### **Ontario Job Creation**



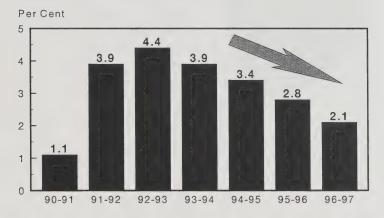
# Fiscal Highlights

# Overachieving Deficit Reduction Goals for the Second Consecutive Year

For the second year in a row, the Government has more than met its deficit reduction target. The deficit for 1996-97, at \$6.9 billion, surpassed the Budget Plan deficit target of \$8.2 billion by \$1.3 billion.

The 1996-97 deficit decreased by \$1.9 billion to \$6.9 billion, down from the 1995-96 deficit of \$8.8 billion. This improvement is due to government actions to control spending and the generally improving economy. Since 1992-93, the deficit as a share of the economy has fallen from a peak of 4.4 per cent to 2.1 per cent of GDP in 1996-97.

#### Deficit as a Per Cent of GDP



#### Revenue

Total revenue in 1996-97, at \$49.5 billion was unchanged from the prior year.

Expense

Total expense in 1996-97, at \$56.4 billion fell by \$1.9 billion from 1995-96 levels. Improved spending performance is largely due to the full-year impact of expenditure control measures previously announced. Nevertheless, during 1996-97, the government decided to make significant investments totalling \$2.4 billion in key areas to promote restructuring efforts which will provide more efficient and effective services in such areas as health care and municipalities.

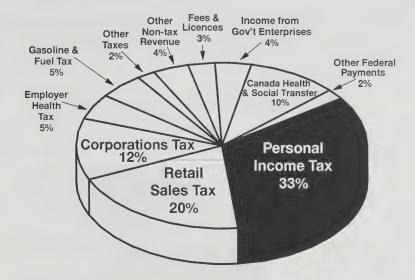
Change in accounting policy

In accordance with the revised recommendations of the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA), the province reclassified Ontario Housing Corporation (OHC) and Toronto Area Transit Operating Authority (GO Transit) from government enterprises to government service organizations. This adjustment was reflected in the 1996-97 interim numbers included in the 1997 Ontario Budget. The impact of this accounting change on the 1996-97 and 1995-96 deficit was an increase of \$98 million and \$74 million respectively.

# Sources of Revenue

Total revenue for 1996-97 was \$49.5 billion. Tax revenue accounted for 77 per cent, federal transfers for 12 per cent, other revenue for 7 per cent and income from government enterprises for 4 per cent.

### Sources of Revenue

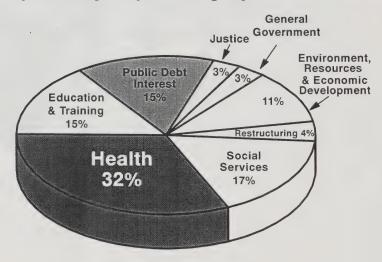


# **Expense**

Total provincial government expense for 1996-97 was \$56.4 billion. Almost two-thirds of the total related to spending on health, education and social services. Interest on Ontario's outstanding debt accounted for 15 per cent of total expense. Restructuring charges, environment, resources and economic development, justice and general government expense accounted for the remaining 21 per cent of expense in 1996-97.

Health-care spending totalled \$18.9 billion in 1996-97. This amount includes \$970 million to support restructuring in the health-care sector.

# **Expense by Major Category**



### Business planning

The government is implementing the second year of its Business Plan process. Each ministry has developed a business plan that defines its core businesses, identifies key strategies to deliver programs in support of its core businesses in a more effective and efficient manner, and provides performance measures to gauge performance against stated objectives. Ministry Business Plans were released by the Chair of Management Board of Cabinet in June 1997.

# **Summary of In-Year Changes to Revenue**

Total revenue in 1996-97, at \$49.5 billion, was \$2.8 billion above the \$46.7 billion level projected in the 1996 Ontario Budget. The strength of the economy and the cautious nature of the Budget projections both contributed to the revenue gain.

In-Year Changes to Revenue in 1996-97 (\$ millions)		
Taxation Revenue		
Personal Income Tax	1,144	
Corporations Tax	482	
Retail Sales Tax	444	
Land Transfer Tax	79	
Tobacco Tax	26	
Employer Health Tax	107	
All Other (Including Gas, Fuel and	16	
Mining Profits Taxes)		2 200
Fodoral Payments		2,298
Federal Payments Social Housing	341	
Canada Health and Social Transfer	(446)	
Canada-Ontario Infrastructure Works	(81)	
All Other (Including Young Offenders	(01)	
and Vocational Rehabilitation)	(66)	
,		(252)
Income from Government Enterprises		, ,
Ontario Housing Corporation	232	
GO Transit	157	
Ontario Casino Corporation	19	
Ontario Lottery Corporation	(82)	
All Other (Including Ontario Clean		
Water Agency)	(49)	_
		277
Other Revenue		
Sales and Rentals	476	
Miscellaneous	(30)	
Fines and Penalties	57	
All Other (Including Vehicle and Driver	(00)	
Registration Fees)	(36)	467
		467
Total In-Year Revenue Changes		2,790

- The strength of the economy helped to raise tax revenues \$2.3 billion above the prudent Budget projection. Personal Income Tax revenue was \$1.1 billion above the Budget projection as a result of stronger-than-expected income growth in 1995 and continued employment and income growth in 1996. Of this increase, \$745 million is due to a higher estimate of 1995-96 Personal Income Tax revenue.
- Corporations Tax revenue was \$482 million or 9 per cent higher, reflecting both the cautious nature of the Budget projection and the strength of corporate profits.
- Retail Sales Tax was \$444 million or 4.7 per cent above projection due to stronger growth in consumer and business spending (1996 nominal consumption was 2.9 per cent, compared to 1996 Budget projection of 2.5 per cent) and the caution built into the Budget projection.
- The strong resale housing market pushed Land Transfer Tax revenue over the Budget projection by \$79 million or 21.6 per cent. The number of housing resales in Ontario rose 31.3 per cent in 1996.
- Tobacco Tax was \$26 million or 7.9 per cent above the Budget projection because of an increase of 0.35 cents per cigarette in the federal tobacco tax in November 1996 and stronger-thanexpected sales.
- Employer Health Tax revenue was \$107 million or 4 per cent higher, largely reflecting the cautious nature of the Budget projection.
- Increased Social Housing revenue of \$341 million includes social housing payments of \$205 million made to the OHC, now shown as a federal payment as a result of the accounting reclassification of the OHC to a government service organization, and \$136 million in federal payments made to the Ministry of Municipal Affairs and Housing, previously reported as part of "Other" federal payments.
- Revenue from the Canada Health and Social Transfer was down \$446 million from the Budget projection as a result of strongerthan-expected Personal Income Tax revenue. Under the federal Canada Health and Social Transfer allocation formula, an increase in Personal Income Tax results in lower federal cash payments to the province.
- A slower-than-expected pace of construction of Canada-Ontario Infrastructure Works projects resulted in an \$81 million decline in 1996-97 federal infrastructure payments compared to the Budget projection.

- Higher-than-projected Income from Government Enterprises primarily reflects the reclassification of OHC and GO Transit, which removed a combined loss of \$389 million from this revenue category. These gains were partly offset by the delay in the implementation of Video Lotteries to 1997-98 from 1996-97, and a one-time restructuring charge which reduced income from the Ontario Lottery Corporation.
- Sales and Rentals revenue increased by \$476 million, including \$304 million from the inclusion of the gross revenue of the OHC and \$108 million from GO Transit.
- Fines and Penalties were \$57 million or 57 per cent higher as a result of higher fines under the *Highway Traffic Act* and an underestimate of the accounts receivable balance in the Budget projection.

# **Summary of In-Year Changes to Expense**

Expense was \$2.2 billion above the 1996 Budget Plan. Investments in restructuring were \$1.5 billion higher than the \$900 million provision included in the Budget. The reclassification of the Ontario Housing Corporation and GO Transit from business enterprises to government service organizations added \$1.1 billion to total expense, including \$232 million in public debt interest expense.

#### Significant sources of change in spending from budget

- Response to the Ontario Student Opportunities Trust Fund initiative announced in the 1996 Budget far exceeded expectations. Consequently, the government provided an additional \$149 million in matching funds for individual university and college trust funds during 1996-97, raising the total to \$249 million.
- A \$105 million provision was made for benefit liability in the Provincial Judges' Pension Fund.
- The Drug Benefits program incurred an overall increase in expense of \$93 million in-year, mainly due to increased utilization under the Special Drugs program and the Ontario Drug Benefit plan.
- An increase in public debt interest costs of \$232 million, resulting
  from the reclassification of GO Transit and OHC, was more than
  offset by other savings of \$370 million in public debt interest
  costs. These savings arose from several factors: a decline in
  public market borrowing from the Budget estimate; a decline in
  interest rates; and effective risk-management activities that
  further lowered borrowing costs.
- Savings of \$219 million in Ontario Teachers' Pension expense were realized mainly as a result of the use of more current information reflecting higher investment earnings in the year.
- Savings of \$190 million in the Public Service Pension Plan and OPSEU Pension Trust expense were realized, mainly the result of the use of more current assumptions reflecting a low inflation outlook and higher investment earnings.

Restructuring

In recognition of the scale of restructuring taking place in the province, total restructuring amounted to \$2.4 billion in 1996-97.

The government made significant investments to promote restructuring efforts in key areas such as health care, municipalities and education, as well as in the Ontario Public Service (OPS). Restructuring investments included:

- A provision of \$970 million to account for the government's share
  of costs in those individual communities where health care
  restructuring and re-alignment plans exist.
- Changes totalling \$772 million for municipal sector restructuring, including:
  - \$350 million to cover the maintenance costs associated with the transferring of certain highways to municipalities.
  - \$200 million to support the muncipalities in assuming funding responsibilities for municipal transit, GO Transit, ferries, and municipal airports.
  - \$150 million for capital refurbishment of non-profit housing and co-operative housing to be transferred to municipalities.
  - \$72 million provided for exit costs associated with the transfer of certain areas of provincial responsibility to the municipal level of government.
- \$438 million for employee severance costs resulting from reductions in the size of the OPS.
- \$250 million for the province's share of the cost of a retirement incentive for teachers to renew the profession.

# **Financing and Debt Management**

Financing

Financing requirements of \$12.4 billion (including the refinancing of maturing debt) were met through public market borrowing (\$6.5 billion¹), a decrease in liquid reserves (\$5.7 billion), and internal sources (\$0.2 billion).

During the year, \$6.4 billion of maturing debt was refinanced, including \$1.3 billion of non-marketable debt. Some of this maturing debt had interest rates as high as 16.9 percent. The weighted average interest rate on debt issued for provincial purposes in 1996-97 was approximately 5.6 per cent, lower than the 9.0 per cent rate for all outstanding provincial debt.

The Canadian dollar market remained Ontario's primary source of funds, accounting for more than half of total borrowing transacted during the year (\$3.7 billion of \$6.5 billion). Key features of the 1996-97 domestic borrowing program were: structured Medium-Term Notes (MTNs) targeted to specific retail and institutional investors, and the second Ontario Savings Bond campaign, which raised more than \$1 billion.

Internationally, Ontario borrowed in US, Australian, and New Zealand dollars, as well as French francs, Norwegian kroner, and Japanese yen. Two billion dollars were raised from Japanese investors, including \$0.9 billion from the province's first Samurai<sup>2</sup> issues. Similarly, Ontario's inaugural Euro-French franc issue (\$0.8 billion) was well received in the market.

Responding to investor demand, the province doubled the authorized size of its European Medium Term Note (EMTN) program to \$6 billion. Fourteen transactions were completed under this program during the fiscal year.

Excludes \$0.7 billion of financing transacted in 1996-97 but settled in 1997-98. Total financing raised during the fiscal year was \$7.2 billion.

Bonds issued into the Japanese domestic market by non-Japanese issuers.

Overall, international debt issues offered very attractive rates when converted back into Canadian dollars relative to domestic sources. By diversifying its use of financing instruments and markets within a prudent public finance policy framework, the Ontario Financing Authority is able to take advantage of the most favourable conditions when choosing markets and timing. Results of this financing approach are stable debt management and cost-effective funding. In 1996-97, the cost of new debt issued in foreign markets was 36 basis points lower than the cost of borrowing in the Canadian market.

Debt management

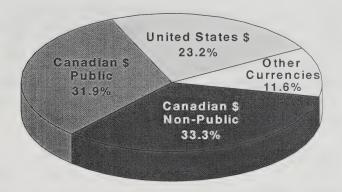
On March 31, 1997 total Ontario debt stood at \$101.5 billion. Included in this amount was \$2.8 billion resulting from the accounting reclassification of Ontario Housing Corporation and GO Transit

Approximately one-third of the debt (\$33.8 billion) is held as non-marketable (or non-public) debentures by Ontario's public sector pension funds, the Canada Pension Plan Investment Fund, and the Canada Mortgage and Housing Corporation.

Prudent debt management is vital to the government's overall debt reduction efforts. Several key principles guide this activity, including: managing debt with a view toward ensuring cost-effectiveness and stability, maintaining a smooth maturity profile through term selection, and limiting Ontario's exposure to currency and interest rate fluctuations.

In total, nearly 35 per cent, or \$35.3 billion, of Ontario's debt has been issued in foreign currencies. At March 31, 1997, all but \$0.7 billion (0.7 per cent) of this debt, had been effectively converted into Canadian dollars through the use of risk management techniques. Existing policies limit unhedged foreign exchange exposure to 5 per cent or less of total Ontario debt.

# Total Ontario Debt by Currency



The percentage of floating-rate debt to Ontario debt (net of liquid reserves) was less than five per cent (\$3.4 billion) at year-end. This was well below Ontario's limit of 20 per cent of the province's total debt for such exposure. The province maintains equally prudent policies with respect to counterparty credit, liquidity and refinancing risk. For more details, please refer to the Notes to the Financial Statements in the Public Accounts.

#### Ontario Hydro

The Ontario Financing Authority coordinates financing with Ontario Hydro to optimize market reception to the Ontario credit in both Canadian and international capital markets. In the past, the province has borrowed on behalf of Ontario Hydro in the United States and from the Canada Pension Plan. In 1996-97, debt issued by the province for Ontario Hydro declined by \$0.7 billion to \$3.1 billion.

Securities of \$29 billion directly issued by Ontario Hydro are guaranteed by the province.

A more detailed discussion of the relationship between the Province of Ontario and Ontario Hydro, including the reliance of Ontario Hydro on the province can be found in Note 7 to the Financial Statements in the Public Accounts.

Five-Year	Review	of Selected	Financial
an	d Econo	mic Statisti	CS

and Economic Statistics					
(\$ millions)	1992-93 <sup>1</sup>	1993-94	1994-95	1995-96 <sup>2</sup>	1996-97
REVENUE	41,807	43,674	46,039	49,473	49,450
EXPENSE:					
Programs and Capital	48,942	47,747	48,336	48,944	45,318
Public Debt Interest	5,293	7,129	7,832	8,475	8,607
Restructuring				854	2,430
TOTAL EXPENSE	54,235	54,876	56,168	58,273	56,355
DEFICIT	12,428	11,202	10,129	8,800	6,905
ONTARIO'S DEBT					
Debt Issued for Provincial					
Purposes	66,101	76,714	85,711	98,407	98,313
Province of Ontario Savings					
Office	2,068	2,059	2,089	2,220	2,135
Other Liabilities	438	666	780	769	1,063
TOTAL ONTARIO DEBT	68,607	79,439	88,580	101,396	101,511
ONTARIO HYDRO					
Debt Incurred by the Province	6,717	4,537	3,835	3,808	3,140
CONTINGENT LIABILITIES					
Hydro	32,411	31,789	31,561	29,077	29,027
Other	2,246	2,219	2,221	2,513	2,759
Gross Domestic Product (GDP) at					
market prices	282,803	288,569	300,827	314,077	323,027
Personal Income Per Capita (dollars)	23,569	23,413	23,484	23,887	23,909
Total Ontario Debt as a per cent of GDP	24.3	27.5	29.4	32.3	31.4
1 = 1					

Financial information for 1992-93 is provided on a modified cash basis.
 The previously reported deficit of \$8,726 million has been adjusted by \$74 million to \$8,800 million to reflect changes brought about by the adoption of revised PSAAB recommendations.



Ministry of Finance

# 1996-1997

# Condensed Financial Statements



# Opinion of the Provincial Auditor on the Condensed Financial Statements of the Province of Ontario

To the Minister of Finance:

I have audited, in accordance with generally accepted auditing standards, the statement of financial position of the Province of Ontario as at March 31, 1997 and the statements of operations and accumulated deficit and of changes in financial position for the year then ended. In my Auditor's Report to the Legislative Assembly dated August 15, 1997, I expressed an unqualified opinion on those financial statements. My audit report and the financial statements are included in the 1996-97 Public Accounts of Ontario.

In my opinion, the accompanying condensed financial statements have been accurately extracted from the aforementioned audited financial statements of the province.

Erik Peters, FCA Provincial Auditor Toronto, Ontario

Eigh Poto

August 15,1997

# Statement of Responsibility for the Condensed Financial Statements

The condensed financial statements are extracted from the audited financial statements of the province, which are in compliance with legislation and use accounting principles as recommended by the Public Sector Accounting and Auditing Board and, where applicable, the CICA Handbook for private and public corporations in Canada. The government accepts responsibility for the objectivity and integrity of the financial statements.

The government is also responsible for maintaining systems of financial management and internal control to ensure with reasonable certainty that the transactions recorded in the financial statements are within statutory authority, assets are properly safeguarded, and financial records are reliable in preparation of these financial statements.

Michael L. Godrley Deputy Minister of Finance

August 15, 1997

Anne M. Evans Controller

August 15,1997

Robert Siddall, CA

Director

August 15, 1997

# Province of Ontario Statement of Operations and Accumulated Deficit

For the year ended March 31 (\$ millions)	Budget 1997	Actual 1997	Actual 1996
Revenue			
Personal Income Tax	15,213	16,357	15,633
Retail Sales Tax	9,520	9,964	9,424
Corporations Tax	5,370	5,852	5,174
Employer Health Tax	2,665	2,772	2,695
Gasoline and Fuel Tax	2,505	2,491	2,444
Other Taxes	895	1,030	946
Total Taxation	36,168	38,466	36,316
Government of Canada	6,030	5,778	7,881
Income from Government Enterprises	1,682	1,959	1,730
Other Revenue	2,780	3,247	3,546
	46,660	49,450	49,473
Expense			
Health	17,885	17,921	17,775
Social Services	9,401	9,273	10,377
Education and Training	8,725	8,707	9,761
Public Debt Interest	8,745	8,607	8,475
Environment, Resources and Economic			
Development	5,486	6,230	7,102
Justice	1,724	1,720	2,032
General Government	1,324	1,467	1,897
Restructuring	900	2,430	854
	54,190	56,355	58,273
Reserve	650		
Deficit	8,180	6,905	8,800
Accumulated Deficit			
. Balance, beginning of year		101,864	93,064
Balance, end of year		108,769	101,864

# Province of Ontario Statement of Financial Position

Accumulated Deficit	108,769	101,864
, latances to ontains my sector by sente	15,836	22,198
Advances to Ontario Hydro, Secured by Bonds	3,140	3,808
Investment in Government Enterprises	2,803	2,415
Properties Held for Sale	307	371
Other Assets	680	674
Prepaid Expense	373	691
Accounts Receivable	2,852	2,817
Cash and Temporary Investments	5,681	11,422
Financial Assets		
	124,605	124,062
Debt issued for Ontario Hydro	3,140	3,808
Total Liabilities for Provincial Purposes	121,465	120,254
Other Liabilities	1,063	769
Pensions	7,938	8,189
Deposits with the Province of Ontario Savings Office	2,135	2,220
Debt Issued for Provincial Purposes	98,313	98,407
Liabilities for Provincial Purposes Accounts Payable and Accrued Liabilities	12,016	10,669
(\$ millions)	1997	1996

# Province of Ontario Statement of Changes in Financial Position

3		
For the year ended March 31		
(\$ millions)	1997	1996
Cash Used by Operations		
Deficit for the year .	(6,905)	(8,800)
Cash Provided (Used) by Investment Activities		
Investment in Government Enterprises	(388)	(115)
Cash Provided (Used) by Financing Activities, Net		
Debt Issued (Retired) for Provincial Purposes		
- Public	1,243	11,219
- Other	(1,337)	(1,346)
Deposits with Province of Ontario Savings Office	(85)	131
	(179)	10,004
Other Items	1,731	2,242
Increase (Decrease) in Cash and temporary investments	(5,741)	3,331
Cash and temporary investments at beginning of year	11,422	8,091
Cash and temporary investments at end of year	5,681	11,422

### **Condensed Significant Accounting Policies**

#### Introduction

These notes are a brief summary of the accounting policies followed by the province relating to the Condensed Financial Statements. For more detailed notes on these accounting policies and for more extensive information on the financial position and results of operations of the province, refer to the audited financial statements included in the 1996-97 Public Accounts of Ontario.

The financial statements of the province reflect accrual and consolidation accounting as recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the CICA Handbook for private and public corporations in Canada. Consistent with PSAAB recommendations the province's investments in physical assets are expensed when the assets are acquired.

#### Reporting entity

The financial statements report the combined activities of the Consolidated Revenue Fund and of organizations owned or controlled by the government and accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature. These include crown corporations, boards and commissions.

Trusts administered by the government on behalf of other parties are excluded from the reporting entity.

### Principles of consolidation

The activities of crown corporations, boards and commissions, classified as government service organizations, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in the financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant inter-organization accounts and transactions.

Government enterprises are defined as those crown corporations, boards and commissions which:

- have the financial and operating authority to carry on a business,
- have as their principal activity and source of revenue, the selling of goods and services to individuals and non-government organizations, and

 are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity.

The activities of government enterprises are recorded in the financial statements using the modified equity method. Under this method, government enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their net assets are included in the financial statements as Investment in Government Enterprises on the Statement of Financial Position and their net income is shown as a separate item on the Statement of Operations and Accumulated Deficit.

#### Measurement uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty exists in these financial statements in the accrual of pension obligations, personal income tax, corporations tax and restructuring charges.

### Sources of Additional Information

#### Scope of the Public Accounts

The 1996-97 Public Accounts of the Province of Ontario are made up of the Financial Statements and three volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

### The Ontario Budget

The Ontario government presents a budget each year, usually in the early spring. This document outlines expected expense and revenue for the upcoming fiscal year and presents a medium-term fiscal plan.

#### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry that the Legislative Assembly will be asked to approve in the form of the *Supply Act*.

#### Ontario Government Business Plans

Business plans are published annually by each ministry, following the Ontario Budget and publication of the spending estimates. The business plans highlight what each ministry has done over the previous year, what is planned for the coming year, what targets have been set and how results will be measured. For electronic access to business plans, visit the Ontario Government web site at www.gov.on.ca and click on "What's New".

#### Ontario Finances

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 5th Floor, Frost Building South, 7 Queen's Park Crescent, Toronto, Ontario, M7A 1Y7.

#### Ontario Economic Accounts

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing directly to the Ministry of Finance, Office of Economic Policy, 5th Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1.

Copies of the above publications may be obtained from Publications Ontario, 880 Bay Street, Toronto, Ontario, or by writing directly to the Publications Services Section, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8.







# 1997-1998

# Province of Ontario

**Annual Report** 



Please address your comments on this report to:

The Honourable Ernie Eves, Q.C.

Minister of Finance
7<sup>th</sup> Floor
Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

You can also send your comments to the Minister by electronic mail at: fincom@epo.gov.on.ca



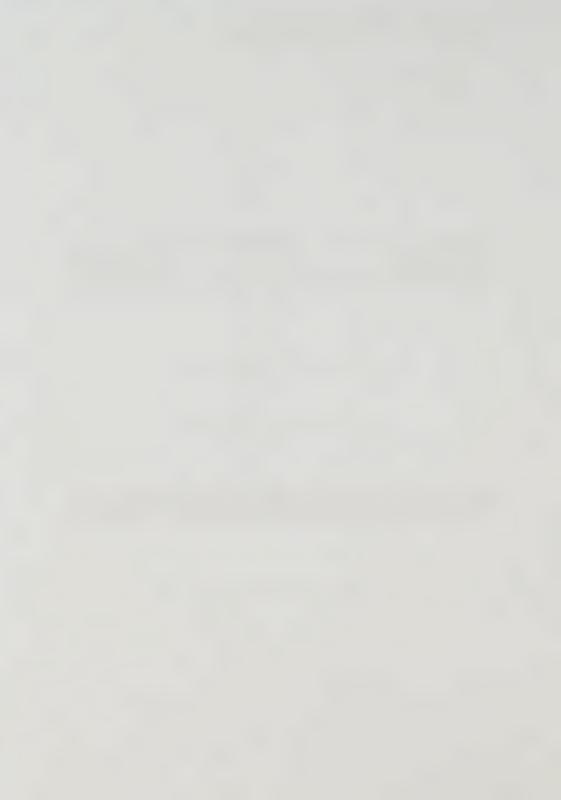
## 1997-1998

# Province of Ontario

### **Annual Report**

This publication is also available in French Ce document est également publié en français

> ISSN 1206-0429 ©Queen's Printer for Ontario, 1998



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### Message from the Honourable Ernie Eves, Minister of Finance

I am pleased to present the 1998 Annual Report of the Province of Ontario for the fiscal year ended March 31, 1998. Our third Annual Report details our government's financial achievements and presents a summary of financial information.

I am submitting the 1997-98 Public Accounts and the Annual Report that include the province's financial statements, the Provincial Auditor's opinion on these statements and more detailed financial information.

For the third year in a row, the financial statements indicate that the Government of Ontario is more than meeting our fiscal commitments as laid out in the Balanced Budget Plan. The deficit for 1997-98 was \$4.0 billion, down \$2.6 billion from the Balanced Budget Plan target of \$6.6 billion and \$1.2 billion less than had been projected in the 1998 Budget.

Prudent and cautious forecasting, combined with strong economic growth, contributed to the deficit being significantly lower than projected.

The province's economy remained strong in 1997, growing by 4.4 per cent. This surpassed the 1997 Budget assumption of 3.2 per cent real GDP growth. Employment growth has remained strong, reflecting a healthy economy. Since the September 1995 Throne Speech, Ontario's private sector has created 302,000 net new jobs.

We made a commitment to balance the province's books by the fiscal year 2000-01. The results for 1997-98 show that we are well on our way to meeting this objective.

We welcome your feedback. If you have any thoughts or comments on how to improve the information in the Public Accounts and Annual Report, fill out the form on page 29 and send it in.

Yours sincerely,

Ernie Eves, O.C. Minister of Finance Toronto, September 1998

### The Year in Review

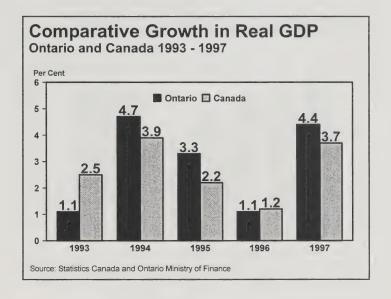
In keeping with the government's plan to balance the budget by the year 2000-01, the deficit continued its downward track, falling from \$6,905 million in 1996-97 to \$3,966 million in 1997-98. For the third consecutive year, the government's deficit target has been surpassed. In 1995-96 the deficit target of \$9,308 million was overachieved by \$508 million; in 1996-97, the deficit target of \$8,180 million was improved by \$1,275 million; and in 1997-98, the deficit was \$2,614 million below the 1997 Budget target of \$6,580 million.

1997-98 Fiscal Highlights (\$ Millions)		
	1996-97	1997-98
Revenue	49,450	52,488
Expense	56,355	56,454
Deficit	6,905	3,966

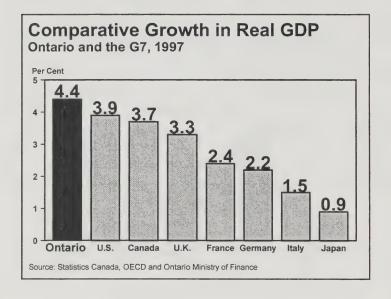
### **Economic Highlights**

### Real Gross Domestic Product (GDP) Growth

The Ontario economy grew vigorously in 1997, expanding by 4.4 per cent. The robust growth in calendar year 1997 was broadly based, with household, business and export sectors all contributing to economic growth.

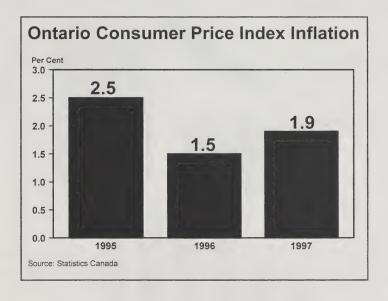


The major sources of growth in Ontario during 1997 were: increased residential construction up 19.1 per cent, business investment in machinery and equipment up 18.7 per cent, and exports up 10.3 per cent. Non-residential construction and consumer spending also contributed to economic growth, rising by 7.4 per cent and 4.5 per cent respectively. Ontario's growth in 1997 outpaced all major industrial nations.



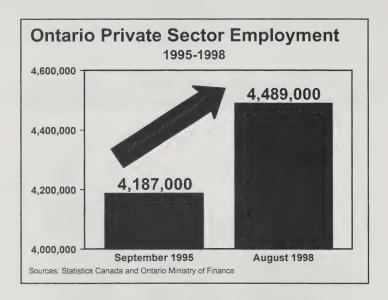
#### **Consumer Price Index Inflation**

Ontario's inflation rate, as measured by the changes in the consumer price index (CPI), was 1.9 per cent in 1997, up slightly from 1.5 per cent in 1996. Inflation declined over the course of 1997, slowing to 1.1 per cent in the fourth quarter (October - December 1997). Despite strong economic growth, price pressure continued to be absent from the Ontario economy in 1997.



### **Employment**

Since the September 1995 Throne Speech, Ontario's private sector has created 302,000 net new jobs.



The largest employment gains were in the business and personal services sector with 118,000 new jobs, followed by the manufacturing sector with 79,000 new jobs, and the retail and wholesale trade sector with 55,000 new jobs.

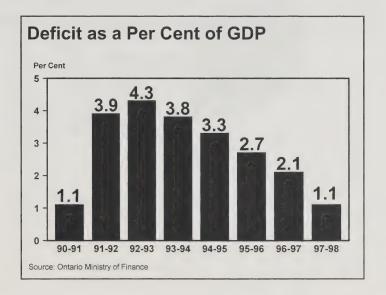
Since September 1995, the unemployment rate fell 1.2 percentage points from 8.4 per cent to 7.2 per cent.

### **Fiscal Highlights**

### Overachieving the Deficit Reduction Target for the Third Consecutive Year

Through a combination of prudent and cautious fiscal planning and strong economic growth, the government has consistently overachieved the deficit targets set out in the Balanced Budget Plan. The 1997-98 deficit, at \$3,966 million, surpassed the Budget Plan deficit target of \$6,580 million by \$2,614 million.

The deficit for 1997-98 of \$3,966 million represents a reduction of \$2,939 million from the 1996-97 deficit of \$6,905 million. Since 1992-93, the deficit as a share of the economy has fallen from a peak of 4.3 per cent to 1.1 per cent of GDP in 1997-98.



The \$650 million reserve included in the 1997 Budget to protect the fiscal plan against unforeseen risks, such as unexpected and adverse changes in the economic outlook, was not needed and was applied to deficit reduction.

#### Revenue

Total revenue of \$52.5 billion in 1997-98 increased by \$3.0 billion from 1996-97 levels.

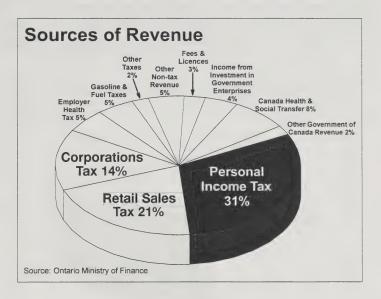
Revenue increases were mostly due to the continued strong growth of the economy and the transitional \$519 million reimbursement of expenditure from municipalities for Local Services Realignment. Taxation revenues grew \$2.7 billion while federal payments fell by \$0.7 billion.

### **Expense**

Vigilant control of government spending was maintained during the fiscal year. Total expense increased by \$99 million from 1996-97 levels to \$56.5 billion in 1997-98. At the same time, significant investments to support restructuring in key sectors such as health, education and municipalities were accommodated within the fiscal plan and amounted to \$2.2 billion in 1996-97 and \$1.6 billion in 1997-98.

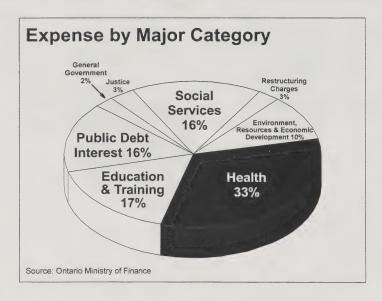
### **Sources of Revenue**

Total revenue for 1997-98 was \$52.5 billion. Tax revenue accounted for 78 per cent, federal transfers 10 per cent, other revenue 8 per cent, and income from investment in government enterprises 4 per cent.



### **Expense by Major Category**

Total provincial government expense for 1997-98 was \$56.5 billion. About two-thirds of that total related to spending on social programs, including health, education and social services. Interest on Ontario's outstanding debt accounted for 16 per cent of expense. Environment, Resources and Economic Development expense, Restructuring Charges, and Justice and General Government expense accounted for the remaining 18 per cent.



# Summary of In-Year Changes to Revenue

Total revenue in 1997-98 was \$52,488 million, \$4,088 million above the \$48,400 million level projected in the 1997 Budget. The strength of the economy, the cautious nature of the Budget projections, and \$519 million for transitional reimbursement of expenditures from municipalities for Local Services Realignment contributed to the revenue increase.

Total In-Year Revenue Changes		4,088
		618
Licences)	(183)	
All Other (Including LLBO Fees and Licences, Other Fees and	101	
Sales and Rentals	137	
Fines and Penalties	84	
Royalties	61	
Reimbursement of Expenditures from Municipalities	519	
Other Revenue		(25
Curci	(4)	(29
Other	(4)	
Ontario Lottery Corporation	(71)	
Liquor Control Board of Ontario	15	
ncome from Government Enterprises Ontario Casino Corporation	31	
naama fram Cayanmant Entarneissa		(197
Other	(89)	(407
	212	
Ice Storms	` ′	
Canada-Ontario Infrastructure Works	(85)	
Canada Health and Social Transfer	(235)	
Federal Payments		3,030
All Other (including Gas, Fuel and Milling Fronts Taxes)	100	3,696
All Other (Including Gas, Fuel and Mining Profits Taxes)	115 108	
Employer Health Tax Land Transfer Tax	211	
Retail Sales Tax	453	
Corporations Tax	1,006	
Personal Income Tax	1,803	

- ♦ Personal Income Tax revenue was \$1,803 million above the 1997 Budget projection as a result of stronger 1997 income growth and higher 1996 PIT assessments than previously estimated. Of the PIT increase, \$1,016 million is due to higher estimated 1996-97 PIT than reported in the 1996-97 Public Accounts. Under Public Sector Accounting and Auditing Board (PSAAB) guidelines, the difference between the higher estimate and the 1996-97 Public Accounts estimate is recorded in 1997-98.
- ♦ Corporations Tax revenue was \$1,006 million higher than forecast in the 1997 Budget outlook due to robust corporate profit growth in 1997. Corporate profits in 1997 grew by 16.8 per cent, which exceeded the 1997 Budget projection of 13.8 per cent.
- ♦ The strength of consumer and business spending in Ontario in 1997 pushed Retail Sales Tax revenue \$453 million above the 1997 Budget projection.
- Employer Health Tax revenue was \$211 million above the 1997 Budget outlook due to faster than projected growth in incomes in 1997.
- ♦ The strong resale housing market increased Land Transfer Tax revenue by \$115 million over the 1997 Budget projection.
- ♦ Transfers from the Government of Canada for 1997-98 were \$5,098 million, \$197 million lower than the 1997 Budget forecast. This largely reflects \$235 million in lower-than-projected Canada Health and Social Transfer (CHST) payments for 1997-98 as a result of higher than expected Personal Income Tax Revenues. Under the federal CHST allocation formula, increases in Ontario's personal income tax revenue result in lower CHST payments to Ontario. Canada-Ontario Infrastructure Works program revenues for 1997-98 were \$85 million lower than forecast in the 1997 Budget because some projects that were started in 1997-98 were carried over into 1998-99 for completion. The federal government's share of disaster relief for people, businesses, and municipalities affected by the ice storms in Eastern Ontario, amounted to \$212 million.

- ♦ Income from Investment in Government Enterprises was \$29 million below the 1997 Budget projection. Income from the Ontario Lottery Corporation was down \$71 million as a result of changes to the implementation of charity gaming in Ontario. Partially offsetting this decline was higher income from the Ontario Casino Corporation and the Liquor Control Board of Ontario.
- ♦ Other Revenue was \$618 million above the 1997 Budget projection primarily due to the inclusion of \$519 million from transitional reimbursement of expenditures from municipalities for Local Services Realignment. Higher Royalties, Fines and Penalties and Sales and Rentals also contributed to the increase in Other Revenue.

# Summary of In-Year Changes to Expense

Expense was \$2,124 million above the 1997 Budget Plan mainly as a result of increased in-year investments of \$985 million for restructuring, a \$698 million increase in Teachers' Pension Plan expense, an increase of \$329 million in the health sector, and savings of \$461 million in Public Debt Interest.

## Major Sources of Change in Spending from the 1997 Budget Plan

- ♦ The provision for Restructuring Charges was increased by \$985 million in-year to \$1,595 million to support restructuring efforts in the health care, education and municipal sectors.
- ♦ Teachers' Pension Plan expense increased by \$698 million in-year, mainly due to an additional expense related to the province's liability from the Teachers' Retirement Compensation Arrangement, and from benefit enhancements recently agreed to by the Ontario Teachers' Federation and the province.
- ♦ The increase of \$329 million in the health sector was mainly due to increased utilization of doctors' services and drug programs, a special provision to provide financial assistance to persons who contracted Hepatitis C or were infected through secondary contact via the blood system, and increased funding for seniors, people with continuing care needs and children with disabilities.
- Relief to people, small businesses, farmers and public institutions affected by ice storms in Eastern Ontario resulted in additional costs of \$261 million. The federal government's share of the relief program is \$212 million and is reflected in provincial revenues.
- Savings of \$461 million in Public Debt Interest were primarily due to interest rates lower than the prudent Budget assumptions. Other factors were lower borrowing requirements and higher-than-expected investment income.

 Ontario Public Service and OPSEU Pension Plan expense declined \$231 million, mainly due to improved investment performance and lower interest expense.

### **Restructuring Charges**

In recognition of the extent of restructuring currently underway in the health care, education and municipal sectors, the government made significant investments in these key areas in 1997-98. Total Restructuring Charges amounted to \$1,595 million. Restructuring investments included the following:

- Charges totalling \$998 million for assisting in municipal restructuring, including:
  - \$829 million to discharge provincial responsibilities flowing from the cancellation of the Toronto Transit Commission/City of Toronto Capital Subsidy Agreement;
  - \$50 million to cover the costs associated with the transfer of certain highways to municipalities;
  - \$23 million for co-operative and non-profit housing capital reserves; and,
  - a \$96 million increase in the provision for Local Services Realignment exit costs.
- ♦ A provision of \$532 million for health care restructuring to account for the government's share of costs in realigning hospital services in those individual communities where hospital restructuring plans exist.
- ♦ Charges totalling \$224 million for school boards' amalgamation costs.
- ♦ A net reduction of \$159 million in the 1997-98 Ontario Public Service employee severance expense reflects severance charges resulting from the restructuring decisions taken by the government during the year, which were offset by a downward revision of the severance provisions recorded in 1995-96 and 1996-97.

### **Borrowing and Debt Management**

### 1997-98 Borrowing Program

The province borrowed \$11.3 billion in long-term capital markets to fund the deficit, refinance maturing debt and pay down short-term debt. Of the \$11.3 billion, \$10.8 billion was the nominal value of the debt issued and \$0.5 billion represents the proceeds received above this nominal value.

The Canadian dollar market remained Ontario's primary source of funds, accounting for over 86 per cent of long-term borrowing transacted during the year (\$9.8 billion of \$11.3 billion). Of the total borrowed in Canada, \$6.0 billion was borrowed in the 30-year term to take advantage of low long-term interest rates. Ontario residents invested \$1.5 billion in the third Ontario Savings Bonds campaign. In addition, to improve the liquidity and marketability of future domestic longer-dated Medium Term Notes, the province introduced a benchmark Medium Term Note targeted to institutional investors.

Ontario also borrowed internationally in Japanese Yen and French Francs. The province raised \$0.8 billion from Japanese investors via five separate issues including Euro Medium Term Notes and a Samurai bond issue (Samurai bonds are bonds issued into the Japanese domestic market by non-Japanese issuers). Ontario's second Euro-French Franc issue raised \$0.7 billion.

### **Debt Management**

Ontario's total Provincial Purpose Debt is comprised of Debt Issued for Provincial Purposes plus Deposits with the Province of Ontario Savings Office and Other Liabilities. On March 31, 1998, Ontario's total Provincial Purpose Debt stood at \$105.5 billion. Nearly one third of this amount (\$32.7 billion) is held as non-marketable or non-public debentures by Ontario's public sector pension funds, the Canada Pension Plan Investment Fund, and the Canada Mortgage and Housing Corporation.

Prudent debt management is vital to the government's overall debt reduction efforts. Several key principles guide this activity, including: managing debt with a view toward cost-effectiveness and stability, ensuring a smooth maturity profile through term selection, and limiting Ontario's exposure to currency and interest rate fluctuations. For additional details, please refer to the Notes 2 and 3 to the Financial Statements in the 1997-98 Public Accounts of Ontario.

Nearly one-third (\$34.2 billion) of Ontario's total Provincial Purpose Debt has been issued in foreign currencies. At March 31, 1998, all but \$0.5 billion (0.5 per cent) of Ontario's total Provincial Purpose Debt had been converted or hedged into Canadian dollars through the use of risk-management techniques. Existing policies limit unhedged foreign exchange exposure to 5 per cent or less of Ontario's total Provincial Purpose Debt.

At all times during the year, the proportion of floating-rate debt was well below the policy limit of 20 per cent of Ontario's total Provincial Purpose Debt. Floating-rate debt as a percentage of Ontario's total Provincial Purpose Debt (net of liquid reserves) increased from an average of 3.7 per cent in 1996-97 to an average of 7.3 per cent (\$7.5 billion) in 1997-98. On March 31, 1998, the floating-rate debt was 2.4 per cent of Ontario's total Provincial Purpose Debt, down from 3.4 per cent on March 31, 1997. The floating-rate debt is lower at year-end as liquid reserves are increased at that time to meet cash requirements during the Budget process – a period of up to 2 months – when the Ontario Financing Authority refrains from accessing capital markets.

### **Ontario Hydro**

The Ontario Financing Authority coordinates financing with Ontario Hydro to optimize market reception for the Ontario credit in the Canadian and international capital markets.

In the past, the province has borrowed in its own name on behalf of Ontario Hydro in the United States and from the Canada Pension Plan. On March 31, 1998, debt issued by the province for Ontario Hydro totalled \$2.9 billion, down \$0.2 billion from the \$3.1 billion outstanding at the end of 1996-97. In addition to the \$2.9 billion issued by the province on behalf of Ontario Hydro, securities of \$27.8 billion directly issued by Ontario Hydro are guaranteed by the province as of March 31, 1998.

On November 6, 1997, the Ontario Government announced a proposal for the restructuring of Ontario's electricity system and for the creation of a competitive market by the year 2000 for wholesale and retail customers. A more detailed discussion of the relationship between the Province of Ontario and Ontario Hydro can be found in Note 6 to the Financial Statements in the 1997-98 Public Accounts of Ontario.

C Millians	1993-94	1994-95	1995-96	1996-97	1997-98
\$ Millions					
Revenue	43,674	46,039	49,473	49,450	52,488
Expense:					
Programs and Capital	47,747	48,336	48,944	45,568	46,130
Public Debt Interest	7,129	7,832	8,475	8,607	8,729
Restructuring			854	2,180	1,595
Total Expense	54,876	56,168	58,273	56,355	56,454
Deficit	11,202	10,129	8,800	6,905	3,966
Ontario's Debt					
Debt Issued for Provincial Purposes	76,714	85,711	98,407	98,392	101,982
Province of Ontario Savings Office	2,059	2,089	2,220	2,135	2,245
Other Liabilities	666	780	769	984	1,247
Total Provincial Purpose Debt	79,439	88,580	101,396	101,511	105,474
Ontario Hydro					
Debt Incurred by the Province	4,537	3,835	3,808	3,140	2,885
Contingent Liabilities					
Hydro	31,789	31,561	29,077	29,027	27,772
Other	2,219	2,221	2,513	2,759	2,903
Gross Domestic Product (GDP) at Market Prices	291,716	305,023	322,874	331,024	346,871
Personal Income Per Capita (dollars)	23,576	23,544	24,128	24,285	24,582
Total Ontario Debt as a Per Cent of GDP	27.2	29.0	31.4	30.7	30.4

# Condensed Financial Statements



### **Opinion of the Provincial Auditor** on the Condensed Financial Statements of the **Province of Ontario**

To the Minister of Finance:

I have audited, in accordance with generally accepted auditing standards, the statement of financial position of the Province of Ontario as at March 31, 1998 and the statements of operations and accumulated deficit and of changes in financial position for the year then ended. In my Auditor's Report to the Legislative Assembly dated August 14, 1998, I expressed an unqualified opinion on those financial statements. My audit report and the complete financial statements are included in the 1997-98 Public Accounts of Ontario.

In my opinion, the accompanying condensed statements of financial position, of operations and accumulated deficit and of changes in financial position have been accurately extracted from the aforementioned audited financial statements of the province.

The condensed financial statements provide only a brief summary of the significant accounting policies followed by the province and do not include the Notes and Schedules that accompany the complete financial statements. Accordingly, these condensed financial statements do not include all the disclosures required by accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. Therefore, readers are cautioned that these statements may not be appropriate for their purposes. For more extensive information on the province's financial position, results of operations and changes in financial position, reference should be made to the complete financial statements included in the 1997-98 Public Accounts of Ontario

Toronto, Ontario August 14, 1998 Erik Peters, FCA Provincial Auditor

### Statement of Responsibility for the **Condensed Financial Statements**

The condensed financial statements are extracted from the audited financial statements of the province. These statements are in compliance with legislation and use accounting principles as recommended by the Public Sector Accounting and Auditing Board (PSAAB) and, where applicable, the Canadian Institute of Chartered Accountants (CICA) Handbook for private and public corporations in Canada. The government accepts responsibility for the objectivity and integrity of the financial statements.

The government is also responsible for maintaining systems of financial management and internal control to ensure, with reasonable certainty, that the transactions recorded in the financial statements are within statutory authority, assets are properly safeguarded, and financial records are reliable in preparation of these financial statements.

Tony Salerno

August 14, 1998

Colin Andersen

Deputy Minister (Acting) Assistant Deputy Minister Controller

August 14, 1998

Tony Suland Colonforders\_ Kabat Siddall Robert Siddall, CA

August 14, 1998

### **Province of Ontario**

# **Statement of Operations and Accumulated Deficit**

For the year ended March 31	Budget 1998	Actual 1998	Actual 1997
(\$ Millions)  Revenue			
Personal Income Tax	14,490	16,293	16,357
Retail Sales Tax	10,390	10,293	9,964
Corporations Tax	6,450	7,456	5,852
· ·	•	,	,
Employer Health Tax	2,640	2,851	2,772
Gasoline and Fuel Taxes	2,515	2,591	2,491
Other Taxes	1,020	1,167	1,030
Total Taxation	37,505	41,201	38,466
Government of Canada	5,295	5,098	5,778
Income from Investment in Government	0.000	0.004	4.050
Enterprises	2,320	2,291	1,959
Other Revenue	3,280	3,898	3,247
	48,400	52,488	49,450
Expense			
Health	18,087	18,416	17,921
Social Services	9,512	9,272	9,273
Education and Training	8,930	9,524	8,957
Public Debt Interest	9,190	8,729	8,607
Environment, Resources and Economic			
Development	4,940	5,728	6,230
Justice	1,698	1,835	1,720
General Government	1,363	1,355	1,467
Restructuring Charges	610	1,595	2,180
	54,330	56,454	56,355
Reserve	650		
Deficit	6,580	3,966	6,905
Accumulated Deficit			
Balance, Beginning of Year	108,769	108,769	101,864
Balance, End of Year	115,349	112,735	108,769

### **Province of Ontario**

### **Statement of Financial Position**

As at March 31	1998	1997
(\$ Millions)		
Liabilities for Provincial Purposes	40.000	44.700
Accounts Payable and Accrued Liabilities	12,686	11,766
Debt Issued for Provincial Purposes	101,982	98,392
Deposits with the Province of Ontario Savings Office	2,245	2,135
Pensions	8,062	8,188
Other Liabilities	1,247	984
Total Liabilities for Provincial Purposes	126,222	121,465
Debt Issued for Ontario Hydro	2,885	3,140
	129,107	124,605
Financial Assets		
Cash and Temporary Investments	5,414	5,681
Accounts Receivable	3,666	2,852
Loans Receivable	2,246	2,158
Other Assets	417	543
Properties Held for Sale	271	307
Investment in Government Enterprises	1,473	1,155
Advances to Ontario Hydro, Secured by Bonds	2,885	3,140
	16,372	15,836
Accumulated Deficit	112,735	108,769

### **Province of Ontario**

# Statement of Changes in Financial Position

For the year ended March 31 (\$ Millions)	1998	1997
Cash Used by Operations		
Deficit for the Year	(3,966)	(6,905)
Cash Provided (Used) by Investment Activities		
Investment in Government Enterprises	(318)	23
Cash Provided (Used) by Financing Activities, Net		
Debt Issued for Provincial Purposes	10,847	6,398
Debt Retired for Provincial Purposes	(7,257)	(6,492)
Deposits with Province of Ontario Savings Office	110	(85)
	3,700	(179)
Other Items	317	1,320
Decrease in Cash and Temporary Investments	(267)	(5,741)
Cash and Temporary Investments at Beginning of Year	5,681	11,422
Cash and Temporary Investments at End of Year	5,414	5,681

# **Condensed Significant Accounting Policies**

#### Introduction

These notes provide a brief summary of the accounting policies followed by the province relating to the Condensed Financial Statements. For more detailed notes on these accounting policies and for more extensive information on the financial position and results of operations of the province, refer to the audited financial statements included in the 1997-98 Public Accounts of Ontario.

The financial statements of the province reflect accrual and consolidation accounting as recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the CICA Handbook for private and public corporations in Canada. The province's investments in physical assets are expensed when the assets are acquired.

### Reporting Entity

The financial statements report the combined activities of the Consolidated Revenue Fund and of organizations owned or controlled by the government that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature. These include crown corporations, boards and commissions.

Ontario Hydro is not included in the reporting entity as the *Power Corporation Act* precludes distribution of any Hydro surplus to the province.

Trusts administered by the government on behalf of other parties are excluded from the reporting entity.

### **Principles of Consolidation**

The activities of crown corporations, boards and commissions, classified as government service organizations, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in the financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant inter-organization accounts and transactions.

Government enterprises are defined as those crown corporations, boards and commissions which:

- have the financial and operating authority to carry on a business,
- have as their principal activity and source of revenue, the selling of goods and services to individuals and non-government organizations, and
- are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity.

The activities of government enterprises are recorded in the financial statements using the modified equity method. Under this method, government enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their net assets are included in the financial statements as Investment in Government Enterprises on the Statement of Financial Position and their net income is shown as a separate item on the Statement of Operations and Accumulated Deficit.

### **Measurement Uncertainty**

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty exists in these financial statements in the accrual of pension obligations, personal income tax, corporations tax and restructuring charges.

# **Sources of Additional Information**

#### **Public Accounts of the Province of Ontario**

The 1997-98 Public Accounts of the Province of Ontario are made up of the financial statements and three volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.
- 3. **Volume 3** contains the details of expenditure and the Ontario Public Service senior salary disclosure.

#### **The Ontario Budget**

The Ontario Government presents a budget each year, usually in the early spring. This document outlines expected expense and revenue for the upcoming fiscal year. For electronic access to the Ontario Budget, go to http://www.gov.on.ca/FIN/english/budeng.htm.

#### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry which are submitted for approval to the Legislative Assembly in the *Supply Act*.

#### **Ontario Government Business Plans**

Business Plans are published annually by each ministry, following the Ontario Budget and publication of the spending Estimates. Each plan includes an annual report highlighting what each ministry has done over the previous year, what is planned for the coming year, what performance measures have been set and how results will be measured. It also includes a summary of expenditures. For electronic access to the Business Plans, go to http://www.gov.on.ca/MBS/english/press/plans98.

#### **Ontario Finances**

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to http://www.gov.on.ca/FIN/english/oecoeng.htm.

#### **Ontario Economic Accounts**

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to http://www.gov.on.ca/FIN/english/oecoeng.htm.

Copies of the above publications may be obtained free by mail from Publications Ontario Mail Order, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8; by calling (416) 326-5300, toll-free 1-800-668-9938; or by visiting the Publications Ontario Bookstore at 880 Bay Street, Toronto.

# **Questionnaire**

You can help improve the information provided in this annual report by completing the attached questionnaire and mailing it to:

Office of the Controller

Attention: Robert Siddall, Controller

7 Queen's Park Crescent

Frost Building South, 1st Floor

Toronto, Ontario M7A 1Y7

or by a mail to siddal mary an

of by e-mail to: siddaif@gov.t	ni.ca		
Please check ✓			
1. How would you rate the c	larity of the informa	ation provided in this	report?
a. clear 🚨 b. 1	nostly	c. somewhat	d. not clear 📮
C	lear 🖵	clear 🗖	
2. Do you believe that the na	arrative in the repor	t is:	
	_	c. too long? 🗖	
3. Do you believe that suffic	ient information wa	as provided in the rep	ort on the following items:
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♦ description of expenditure	s a. enough 🗖	b. not enough 📮	c. too much 📮
♦ description of assets	a. enough 📮	b. not enough 📮	c. too much
♦ description of liabilities	a. enough 📮	b. not enough 📮	c. too much 📮
• changes of revenue from			
budget and prior year	a. enough 📮	b. not enough 📮	c. too much 📮
♦ changes of expenditure fro			
budget and prior year	a. enough 🚨	b. not enough 📮	c. too much
• changes in assets	a. enough 🚨	b. not enough 📮	c. too much 📮
♦ changes in liabilities	a. enough 🚨	b. not enough 📮	c. too much
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5. We would appreciate any report.	other suggestions y	ou may have to help u	as improve next year's
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# Province of Ontario

**Annual Report** 

1998-1999





# **Ministry of Finance**

# Province of Ontario

**Annual Report** 

1998-1999





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# **Message From The Minister of Finance**



Hon. Ernie Eves

I am proud of the Ontario Government's record of achievement during the 1998–1999 fiscal year.

These results, which are outlined in the 1998–1999 Public Accounts and Annual Report of the Province of Ontario, clearly show that our program of tax cuts to strengthen the economy and stimulate job creation is working.

In 1998, we introduced 36 more tax cuts and accelerated the final phase of the 30 per cent personal income tax cut to July 1, 1998—half a year ahead of schedule. The Ontario economy expanded, generating new jobs and a positive climate for trade and investment.

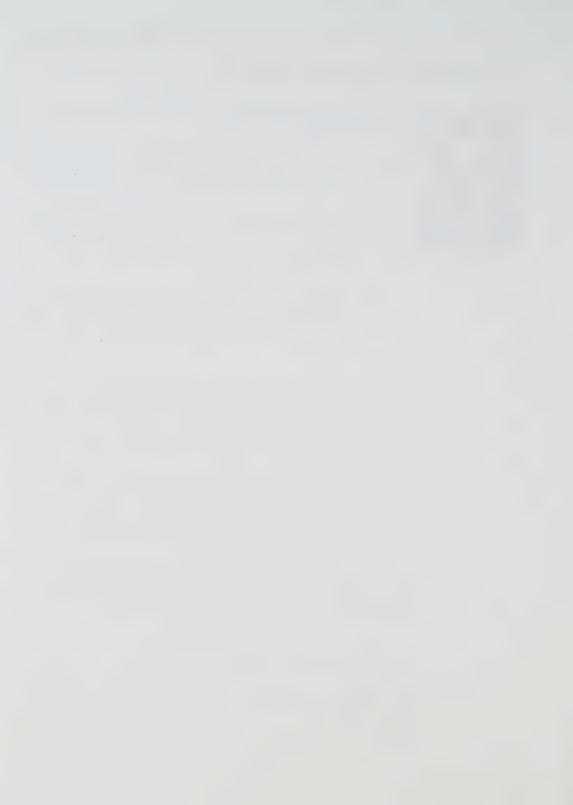
The provincial economy grew by 4.2 per cent last year, faster than any of the G-7 nations, including the United States and Germany. Retail sales were up by 6.9 per cent and 200,000 new jobs were created, representing the largest net annual increase in new jobs ever recorded for Ontario or for any other province.

As a result of the robust growth, personal income tax revenues increased by \$897 million over the prior year and \$2.6 billion over the 1998 Ontario Budget projection. Increased revenues meant that we had more money to apply against the deficit, which we were able to reduce to \$2 billion—\$1.2 billion less than the \$3.2 billion deficit forecast in the 1999 Ontario Budget.

Through prudent budgeting and controlled spending we are on track to eliminate the deficit and balance the books by 2000–2001. However, the job is not yet finished. We need to be ever vigilant in our efforts to ensure taxpayers' dollars are spent wisely, as we create a government that is leaner, more sensible, more efficient and genuinely concerned about serving you.

The millions of dollars we save every year we will continue to reinvest in priority programs such as health care and quality education. We are building the foundations of prosperity for the people of Ontario so every family and every person can have a better tomorrow.

The Honourable Ernie Eves, Q.C. Minister of Finance October 1999



#### The Year in Review

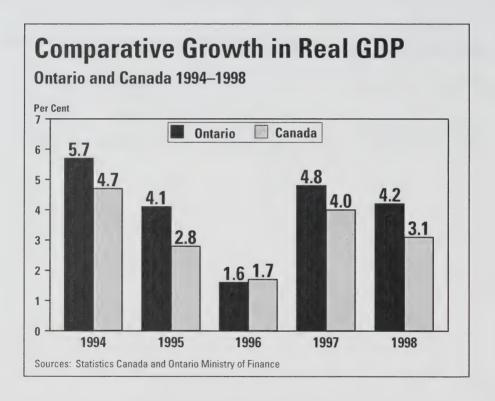
The deficit continued its downward track towards a balanced budget in 2000–01, falling from \$3,966 million in 1997–98 to \$2,002 million in 1998–99. For the fourth consecutive year, the government's deficit-reduction target has been surpassed as the 1998–99 deficit is \$2,222 million below the 1998 Ontario Budget target of \$4,224 million. In 1995–96, the deficit target of \$9,308 million was bettered by \$508 million; in 1996–97, the actual deficit was \$1,275 million below the 1996 Budget target of \$8,180 million; and in 1997–98, the target of \$6,580 million was overachieved by \$2,614 million.

1998–99 Fiscal Highlights		
(\$ Millions)	1997–98	1998-99
Revenue	52,518	55,786
Expenditure	56,484	57,788
Deficit	3,966	2,002

# **Economic Highlights**

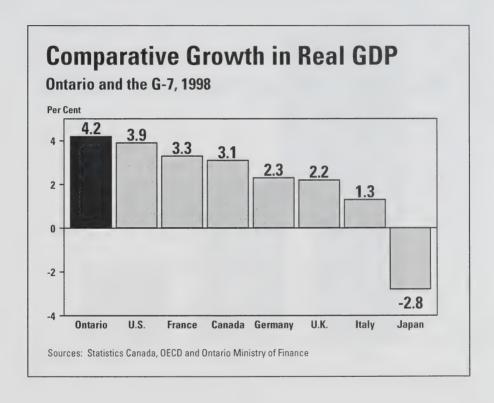
#### Real Gross Domestic Product (GDP) Growth

For the calendar year 1998, the Ontario economy recorded strong economic growth, rising 4.2 per cent. Economic growth continued to be broad based, with the household, business and export sectors all showing vigorous growth.



With solid domestic and foreign demand, business investment in machinery and equipment increased 9.4 per cent. Exports increased 9.1 per cent, with gains concentrated in automotive products and machinery and equipment. The consumer sector recorded its strongest gain in ten years, rising 4.7 per cent.

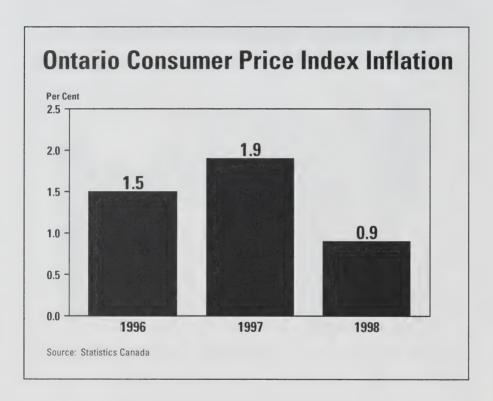
Ontario's growth in 1998 outpaced all major industrial nations.



#### **Consumer Price Index Inflation**

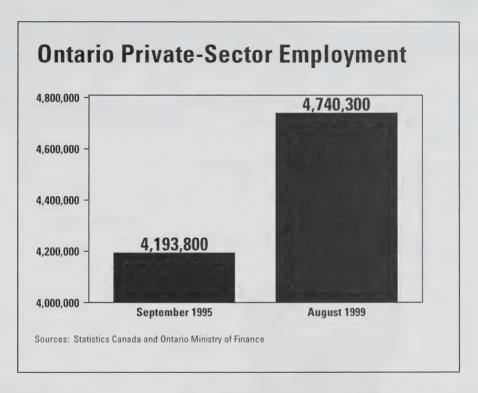
Ontario's inflation rate, as measured by the changes in the consumer price index (CPI), was 0.9 per cent in 1998, down one percentage point from 1.9 per cent in 1997.

Inflation slowed over the second and third quarters (April-September) of 1998, before edging higher in the final quarter of the year. Price pressures were absent from the Ontario economy despite solid growth. Energy prices fell throughout the year.



#### **Employment**

Since the September 1995 Throne Speech, Ontario's private sector has created 546,500 net new jobs.



The largest gains in employment were in the manufacturing sector with 178,000 new jobs, followed by professional, scientific and technical services with 110,000 new jobs and management, administrative and other support services with 71,000 new jobs.

During 1998, on an average annual basis, 200,000 net new jobs were created economy-wide.

Since September 1995, the unemployment rate has fallen 2.0 percentage points from 8.4 per cent to 6.4 per cent.

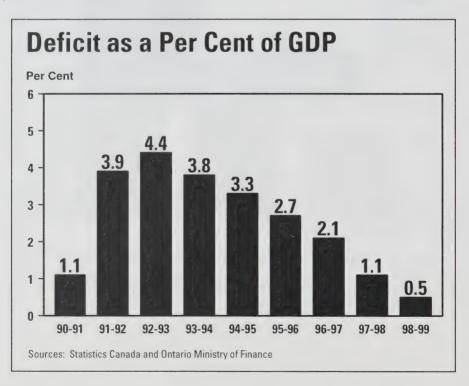
# **Fiscal Highlights**

#### **Deficit**

The government has overachieved the deficit targets set out in the Balanced Budget Plan each year through prudent fiscal planning and strong economic growth. At \$2,002 million, the deficit for 1998–99 represents a decrease of \$1,964 million from the 1997–98 deficit of \$3,966 million and a reduction of \$2,222 million from the 1998 Ontario Budget deficit target of \$4,224 million.

The deficit as a share of the economy has fallen from a peak of 4.4 per cent in 1992–93 to 0.5 per cent of provincial GDP in 1998–99. In 1998–99, the deficit was below one per cent of GDP for the first time this decade.

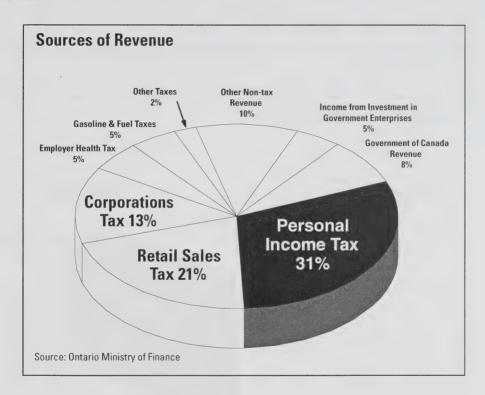
The \$650 million reserve included in the 1998 Ontario Budget to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, was not needed and was applied to deficit reduction.



#### Revenue

Total revenue was \$55,786 million in 1998-99, an increase of \$3,268 million from 1997-98 levels.

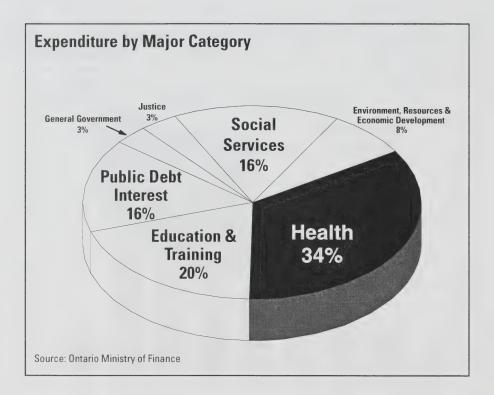
Revenue increases were mostly due to the continued strong growth of the economy and the \$1,590 million increase in the transitional reimbursement of expenditure from municipalities for Local Services Realignment. Taxation revenues grew \$1,808 million while federal payments fell by \$583 million.



#### **Expenditure**

Total expenditure in 1998–99 rose by \$1.3 billion from 1997–98 levels. This increase is mainly due to increases in key areas such as health and education spending, and one-time spending, including the establishment of the Ontario Innovation Trust and provincial expenditures related to Year 2000 computer system changes.

Total provincial government expenditure for 1998–99 was \$57.8 billion. About 70 per cent of the total related to social programs spending, including health, education and social services. Interest on Ontario's outstanding debt accounted for another 16 per cent of expenditure. Environment, resources and economic development, justice and general government expenditure accounted for the remaining 14 per cent.



## **Summary of In-Year Changes to Revenue**

Total revenue in 1998–99 was \$55,786 million, \$2,396 million above the \$53,390 million projected in the 1998 Ontario Budget. Tax revenue was \$2,631 million above projection in 1998–99 as a result of the strength of the Ontario economy. Most of the in-year tax revenue gain was from improved Personal Income Tax, Retail Sales Tax and Employer Health Tax revenue, resulting in large part from the strength of economic growth and job creation.

Summary of In-Year Changes to Revenue in 1998–99		
(\$ Millions)		
Taxation Revenue		
Personal Income Tax	2,555	
Retail Sales Tax	216	
Employer Health Tax	102	
Corporations Tax	(153)	
Land Transfer Tax	(110)	
All Other	21	
		2,631
Federal Payments		
Canada Health and Social Transfer	(397)	
All Other	(16)	
		(413)
Income from Government Enterprises		
Ontario Casino Corporation	167	
Liquor Control Board of Ontario	49	
Ontario Lottery Corporation	(158)	
Other	51	
		109
Other Revenue		
Sales and Rentals	160	
Local Services Realignment - Reimbursement		
of Expenditure	(152)	
All Other	61	
		69
Total In-Year Revenue Changes		2,396

- Personal Income Tax (PIT) revenue was \$17,190 million, \$2,555 million above the 1998 Ontario Budget projection. Of this increase, \$1,573 million is due to higher estimated 1997–98 PIT than was reported in the 1997–98 Public Accounts. Under Public Sector Accounting Board (PSAB) guidelines, the difference between the higher estimate and the 1997–98 Public Accounts estimate is recorded in 1998–99.
- Retail Sales Tax was \$216 million above the 1998 Ontario Budget projection due to strong consumer and business spending.
- Robust employment growth boosted Employer Health Tax revenue \$102 million above forecast.
- Corporations Tax revenue was \$153 million below the Budget forecast due to weaker-thanprojected corporate profits in 1998. Corporate profits fell 3.0 per cent in 1998.
- Land Transfer Tax revenue was \$110 million below the 1998 Ontario Budget forecast due to a weaker-than-projected resale housing market.
- All other Taxation Revenue was \$21 million above the 1998 Ontario Budget projections. This
  increase was due to the reclassification of \$64 million in Estate Fees revenue as Estate
  Administration Tax Revenue, partially offset by lower Mining Profits Tax and Tobacco Tax
  revenue.
- Transfers from the Government of Canada for 1998–99 were \$4,515 million, \$413 million lower
  than the 1998 Ontario Budget forecast. This largely reflects \$397 million in lower-than-projected
  Canada Health and Social Transfer (CHST) payments for 1998–99 as a result of a downward
  revision of estimates to Ontario's population going back to 1995, and an increase in the
  Province's PIT revenue. Under the federal CHST allocation formula, an increase in the value of
  Ontario's income tax points results in lower federal cash payments to the Province.
- Income from Government Enterprises was \$109 million above the 1998 Ontario Budget
  projection. Stronger net income growth for the Ontario Casino Corporation and the Liquor
  Control Board of Ontario was offset by lower Ontario Lottery Corporation (OLC) income. OLC
  income was \$158 million below forecast due to changes in the charity casino and slot machines
  at race tracks program and a revised implementation schedule.
- Total Other Revenue was up \$69 million.
  - Sales and Rentals was \$160 million higher, largely due to higher GO Transit revenue.
  - Reimbursement of expenditure from municipalities was lower by \$152 million, reflecting LSR program savings and changes in cost-sharing arrangements to the benefit of municipalities.
  - All other revenue was up by \$61 million, mainly from Other Fees and Licences and Royalties, partially offset with decreases in Vehicle and Driver Registration Fees and Miscellaneous revenue.

### **Summary of In-Year Changes to Expenditure**

Total provincial government expenditure was \$824 million above the 1998 Ontario Budget Plan mainly due to in-year increases in health and education spending, and the establishment of the Ontario Innovation Trust, partially offset by savings in capital spending and Public Debt Interest.

#### Major Sources of Change in Spending from the 1998 Ontario Budget Plan

- One-time assistance totalling \$229 million was provided in-year to hospitals, including \$129 million to assist with managing change and improving their financial positions, and \$100 million for the Hospital System Transition Fund to assist hospitals with short-term financial pressures.
- Ontario provided an additional \$200 million in-year for compensation to individuals who
  contracted Hepatitis C through the blood system prior to 1986 and after 1990. This amount is in
  addition to the \$113 million provided in 1997–98 for those infected between 1986 and 1990.
- Ontario's share of start-up costs for Canadian Blood Services, established in 1998, added
   \$120 million to expenditure in-year.
- Consistent with the 1997–98 Public Accounts treatment of the Province's three-year commitment
  to fund debt service costs for school board capital debentures, an in-year increase in
  expenditure of \$307 million is reflected in 1998–99.
- The province established the Ontario Innovation Trust and provided an endowment of \$250 million for the purpose of providing funding to Ontario research institutions for infrastructure, including laboratories, buildings and equipment.
- The province provided \$103 million for the 1999 Special Circumstances Fund in addition to the \$77 million for 1998 reported in the 1998 Ontario Budget. This funding is to assist municipalities with transitional expenditures resulting from Local Services Realignment.
- Slower-than-projected implementation and planning delays in projects reduced 1998–99
   Ministry of Health capital expenditure by a total of \$284 million in-year.
- Financing at lower interest rates and lower borrowing requirements than planned at the time of the 1998 Ontario Budget, generated in-year Public Debt Interest (PDI) savings of \$198 million.

## **Local Services Realignment**

The goal of Local Services Realignment (LSR) is to improve accountability, reduce waste and duplication, and provide better government services at a lower cost to Ontario taxpayers. Provincial and municipal services are being realigned in order to provide the best possible services at the lowest possible cost.

Responsibility for a number of programs was transferred to municipalities on January 1, 1998, including social assistance, child care, public health, land ambulance, social housing, transit, airports, community policing and provincial offences court administration and revenues.

As a transition measure and to ensure continuity of service, the province continues to deliver some LSR programs on behalf of municipalities, pending full program transfer. During the transition period, municipalities reimburse the province for expenditures made on their behalf. In 1998–99, the province recovered \$2.1 billion from municipalities for these expenditures.

#### Impact on Education Spending

Starting in 1998, residential education property taxes were reduced by approximately \$2.5 billion annually, with the tax room made available to municipalities to help fund their new LSR service responsibilities. Provincial grants to school boards were increased to offset the loss of property tax revenue.

This realignment is reflected in the Ministry of Education's total spending, which increased by \$2.9 billion from \$8.3 billion in 1997–98 to \$11.2 billion in 1998–99 (not including expenditure on the Teachers' Pension Plan), largely as a result of increased school board operating grants. School board operating grants increased by \$2.9 billion from \$4.5 billion in 1997–98 to \$7.4 billion in 1998–99, more than offsetting the reduction in residential education property taxes available to school boards.

# **Borrowing and Debt Management**

#### 1998-99 Borrowing Program

The province borrowed \$9.3 billion in the long-term capital markets to fund the deficit and refinance maturing debt. Of the \$9.3 billion, \$9.2 billion was the nominal value of the debt issued and \$0.1 billion represents the proceeds received above this nominal value. An additional \$0.7 billion was issued to buy back and retire existing Province of Ontario securities, with no net impact on outstanding debt. The province also increased net short-term borrowing by \$0.4 billion.

The Canadian dollar market remained Ontario's primary source of funds, accounting for nearly 70 per cent of long-term borrowing transacted during the year (\$6.5 billion of \$9.3 billion). Ontario residents invested \$2.0 billion in the fourth Ontario Savings Bonds campaign.

Internationally, the province successfully raised the equivalent of \$1.5 billion Canadian through a U.S. dollar Global issue, the first since February 1996. The Province also issued the Canadian dollar equivalent of \$472 million in Sterling, \$249 million in Swiss Francs, \$105 million in Japanese Yen, \$207 million in New Zealand dollars, \$48 million in Greek Drachma, \$46 million in Euro and an additional \$193 million in U.S. dollars.

#### **Debt Management**

Ontario's Total Provincial Purpose Debt is comprised of Debt Issued for Provincial Purposes plus Deposits with the Province of Ontario Savings Office and Other Liabilities. On March 31, 1999, Ontario's Total Provincial Purpose Debt stood at \$109.2 billion. Nearly 30 per cent of this amount (\$31.0 billion) is held as non-marketable or non-public debentures by Ontario's public-sector pension funds, the Canada Pension Plan Investment Fund, and the Canada Mortgage and Housing Corporation. In 1998–99, the weighted-average effective interest rate on Debt Issued for Provincial Purposes declined to 8.6 per cent from 9.0 per cent the year before.

Prudent debt management is vital to the government's overall debt-reduction efforts. Several key principles guide this activity, including managing debt with a view toward ensuring cost-effectiveness and stability; maintaining a smooth maturity profile through term selection; and limiting Ontario's exposure to currency and interest rate fluctuations.

Nearly one-third (\$34.8 billion) of Ontario's Total Provincial Purpose Debt has been issued in foreign currencies. At March 31, 1999, all but \$1.2 billion (1.1 per cent) of Total Provincial Purpose Debt had been converted or hedged into Canadian dollars through the use of risk management techniques. Existing policies limit unhedged foreign exchange exposure to five per cent or less of Ontario's Total Provincial Purpose Debt.

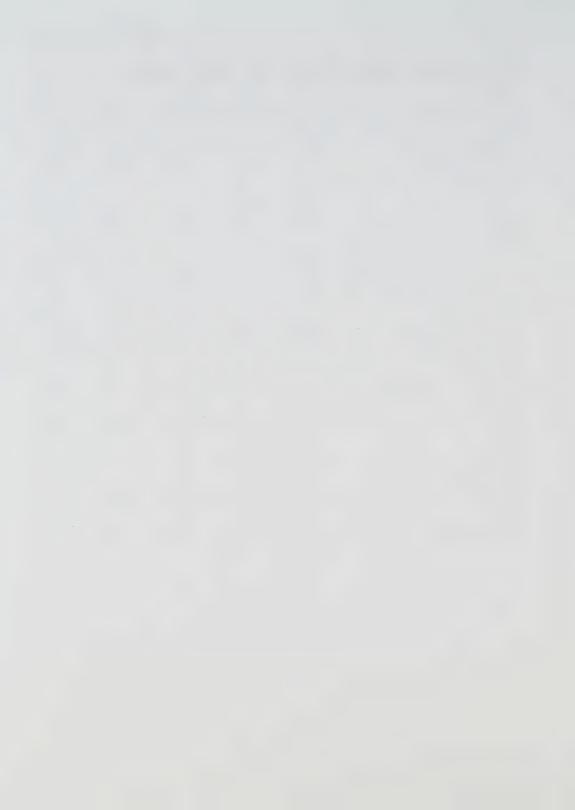
At all times during the year, the proportion of net floating-rate debt was well below the policy limit of 20 per cent of Ontario's debt. Floating-rate debt as a percentage of Ontario's Total Provincial Purpose Debt (net of liquid reserves) decreased from an average of 7.3 per cent in 1997–98 to an average of 5.9 per cent in 1998–99. On March 31, 1999, the floating-rate debt, net of liquid reserves, was 6.8 per cent of Ontario's debt, up from 4.4 per cent on March 31, 1998. For more details on risk management and derivative financial instruments, please refer to Note 2 in the Financial Statements, 1998–99 Public Accounts of Ontario.

#### Ontario Hydro

To meet the former Ontario Hydro's financing requirements in a cost-effective manner, the province issued \$1.5 billion of debt on its behalf in the last quarter of 1998 and first quarter of 1999. The province received Ontario Hydro securities bearing like terms and conditions in return for the proceeds of these issues. At the end of 1998–99, debt issued by the province for the former Ontario Hydro totalled \$4.3 billion, up \$1.4 billion from the \$2.9 billion outstanding at the end of 1997–98.

Under the Electricity Act, 1998, effective April 1, 1999, the Ontario Electricity Financial Corporation (OEFC) was established as the legal continuation of the former Ontario Hydro. The \$26.2 billion of former Ontario Hydro debt plus the \$4.3 billion issued by the province for the former Ontario Hydro as at March 31, 1999, is now the legal obligation of the OEFC. The \$26.2 billion continues to be fully guaranteed by the Province of Ontario. A more detailed discussion of the electricity sector restructuring can be found in Note 5 to the Financial Statements, 1998–99 Public Accounts of Ontario.

Five-Year Review of Selected Financial and Economic Statistics					
(\$ Millions)	1994–95	1995-96	1996-97	1997-98	1998-99
Revenue	46,039	49,473	49,450	52,518	55,786
Expenditure					
Programs and Capital	48,336	48,944	45,568	46,160	48,696
Public Debt Interest	7,832	8,475	8,607	8,729	9,016
Restructuring		854	2,180	1,595	76
Total Expenditure	56,168	58,273	56,355	56,484	57,788
Deficit	10,129	8,800	6,905	3,966	2,002
Ontario's Debt					
Debt Issued for Provincial Purposes	85,711	98,407	98,392	101,982	105,133
Province of Ontario Savings Office	2,089	2,220	2,135	2,245	2,517
Other Liabilities	780	769	984	1,247	1,524
Total Provincial Purpose Debt	88,580	101,396	101,511	105,474	109,174
Ontario Hydro					
Debt Incurred by the Province	3,835	3,808	3,140	2,885	4,248
Contingent Liabilities					
Hydro	31,561	29,077	29,027	27,772	26,238
Other	2,221	2,513	2,759	2,903	2,913
Gross Domestic Product (GDP)					
at Market Prices	307,528	326,178	336,278	355,116	367,190
Personal Income Per Capita (Dollars)	23,874	24,528	24,689	25,404	26,185
Total Ontario Debt as a Per Cent of GD	P 28.8	31.1	30.2	29.7	29.7



# Condensed Financial Statements

# Statement of Responsibility for the Condensed Financial Statements

The condensed financial statements are extracted from the audited financial statements of the province. These statements are in compliance with legislation and use accounting principles as recommended by the Public Sector Accounting Board (PSAB) and, where applicable, the Canadian Institute of Chartered Accountants (CICA) Handbook for private and public sector corporations in Canada. The government accepts responsibility for the objectivity and integrity of the financial statements.

The government is also responsible for maintaining systems of financial management and internal control to ensure, with reasonable certainty, that the transactions recorded in the financial statements are within statutory authority, assets are properly safeguarded, and financial records are reliable in preparation of these financial statements.

Bryne Purchase Deputy Minister August 9, 1999

Colin Andersen Assistant Deputy Minister August 9, 1999 Robert Siddall, CA Provincial Controller August 9, 1999



# Opinion of the Provincial Auditor on the Condensed Financial Statements of the Province of Ontario

#### To the Minister of Finance:

I have audited, in accordance with generally accepted auditing standards, the statement of financial position of the Province of Ontario as at March 31, 1999 and the statements of revenue, expenditure and accumulated deficit and of cash flows for the year then ended. In my Auditor's Report to the Legislative Assembly dated August 9, 1999, I expressed an unqualified opinion on those financial statements. My audit report and the complete financial statements are included in the 1998-99 Public Accounts of Ontario.

In my opinion, the accompanying condensed statements of financial position, of revenue, expenditure and accumulated deficit and of cash flows have been accurately extracted from the aforementioned audited financial statements of the province.

The condensed financial statements provide only a brief summary of the significant accounting policies followed by the province and do not include the Notes and Schedules that accompany the complete financial statements. Accordingly, these condensed financial statements do not include all the disclosures required by accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. Therefore, readers are cautioned that these statements may not be appropriate for their purposes. For more extensive information on the province's financial position, results of operations and cash flows, reference should be made to the complete financial statements included in the 1998-99 Public Accounts of Ontario.

Toronto, Ontario August 9, 1999 Erik Peters, FCA Provincial Auditor

#### **Province of Ontario**

# Statement of Revenue, Expenditure and Accumulated Deficit

	Budget	Actual	Actual
For the year ended March 31 (\$ Millions)	1999	1999	1998
Revenue			
Personal Income Tax	14,635	17,190	16,293
Retail Sales Tax	11,435	11,651	10,843
Corporations Tax	7,600	7,447	7,456
Employer Health Tax	2,780	2,882	2,851
Gasoline and Fuel Taxes	2,645	2,660	2,591
Other Taxes	1,351	1,247	1,235
Total Taxation	40,446	43,077	41,269
Government of Canada	4,928	4,515	5,098
Income from Investment in Government			
Enterprises	2,438	2,547	2,291
Other Revenue	5,578	5,647	3,860
	53,390	55,786	52,518
Expenditure			
Health	19,153	19,694	18,492
Education and Training	10,761	11,297	9,525
Social Services	9,345	9,117	9,290
Public Debt Interest	9,214	9,016	8,729
Environment, Resources and Economic Development	4,196	4,535	5,760
Justice	2,001	2,096	1,878
General Government	2,294	1,957	1,215
Restructuring Charges	_	76	1,595
	56,964	57,788	56,484
Reserve	650		
Deficit	4,224	2,002	3,966
Accumulated Deficit			
Balance, Beginning of Year		112,735	108,769
Balance, End of Year		114,737	112,735

#### **Province of Ontario**

# **Statement of Financial Position**

As at March 31 (\$ Millions)	1999	1998
Liabilities for Provincial Purposes		
Accounts Payable and Accrued Liabilities	11,285	12,686
Debt Issued for Provincial Purposes	105,133	101,982
Deposits with the Province of Ontario Savings Office	2,517	2,245
Pensions	6,428	8,062
Other Liabilities	1,524	1,247
Total Liabilities for Provincial Purposes	126,887	126,222
Debt Issued for Ontario Hydro	4,248	2,885
	131,135	129,107
Financial Assets		
Cash and Temporary Investments	2,780	5,414
Accounts Receivable	3,593	3,666
Loans Receivable	3,300	2,246
Other Assets	467	417
Properties Held for Sale	237	271
Investment in Government Enterprises	1,773	1,473
Advances to Ontario Hydro, Secured by Bonds	4,248	2,885
	16,398	16,372
Accumulated Deficit	114,737	112,735

## **Province of Ontario**

# **Statement of Cash Flows**

For the year ended March 31 (\$ Millions)	1999	1998
Cash Flows Used in Operating Activities		
Deficit for the Year	(2,002)	(3,966)
Adjustments for:		
Income from Investment in Government Enterprises	(2,547)	(2,291)
Remittances to the Province from Government Enterprises	2,247	1,973
Changes in Non-cash Working Capital	(3,755)	317
Cash Flows Used in Operating Activities	(6,057)	(3,967)
Cash Flows from Financing Activities		
Debt Issued for Provincial Purposes	10,290	10,847
Debt Retired for Provincial Purposes	(7,139)	(7,257)
Increase in Deposits with the Province of Ontario Savings Office	272	110
Cash Flows from Financing Activities	3,423	3,700
Net Decrease in Cash and Temporary Investments	(2,634)	(267)
Cash and Temporary Investments at Beginning of Year	5,414	5,681
Cash and Temporary Investments at End of Year	2,780	5,414

# **Condensed Significant Accounting Policies**

#### Introduction

These notes provide a brief summary of the accounting policies followed by the province relating to the Condensed Financial Statements. For more detailed notes on these accounting policies and for more extensive information on the financial position and on revenue, expenditure and accumulated deficit of the province, refer to the audited financial statements included in the 1998–99 Public Accounts of Ontario.

The financial statements of the province reflect accrual and consolidation accounting as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the CICA Handbook for private and public sector corporations in Canada. The province's investments in physical assets are recognized as expenditures when the assets are acquired.

#### **Reporting Entity**

The financial statements report the combined activities of the Consolidated Revenue Fund and of organizations owned or controlled by the government that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature. These include corporations, boards and commissions.

Ontario Hydro is not included in the reporting entity as the *Power Corporation Act* precludes distribution of any Hydro surplus to the Province.

Trusts administered by the government on behalf of other parties are excluded from the reporting entity.

#### **Principles of Consolidation**

The activities of corporations, boards and commissions, classified as government service organizations, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in the financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant interorganization accounts and transactions.

Government Enterprises are defined as those Crown corporations, boards and commissions which:

- have the financial and operating authority to carry on a business,
- have as their principal activity and source of revenue, the selling of goods and services to individuals and non-government organizations, and
- are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity.

The activities of Government Enterprises are recorded in the financial statements using the modified equity method. Under this method, Government Enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their combined net assets are included in the financial statements as Investment in Government Enterprises on the Statement of Financial Position and their combined net income is shown as a separate item on the Statement of Revenue, Expenditure and Accumulated Deficit.

#### Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty exists in these financial statements in the accrual of pension obligations, personal income tax, corporations tax and restructuring charges.

### **Sources of Additional Information**

#### Public Accounts of the Province of Ontario

The 1998–99 Public Accounts of the Province of Ontario are made up of the financial statements and three volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards
  and commissions which are part of the government's reporting entity and other miscellaneous
  financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

#### The Ontario Budget

The Ontario Government presents a budget each year, usually in the early spring. This document outlines expected expense and revenue for the upcoming fiscal year. For electronic access to the Ontario Budget, go to http://www.gov.on.ca/FIN/english/budeng.htm.

#### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry, which are submitted for approval to the Legislative Assembly in the *Supply Act*.

#### **Ontario Government Business Plans**

Business Plans are published annually by each ministry, following the Ontario Budget and publication of the spending Estimates. Each plan includes an annual report highlighting what each ministry has done over the previous year, what is planned for the coming year, what performance measures have been set and how results will be measured. It also includes a summary of expenditures. For electronic access to the Business Plans, go to http://www.gov.on.ca/MBS/english/press/plans98.

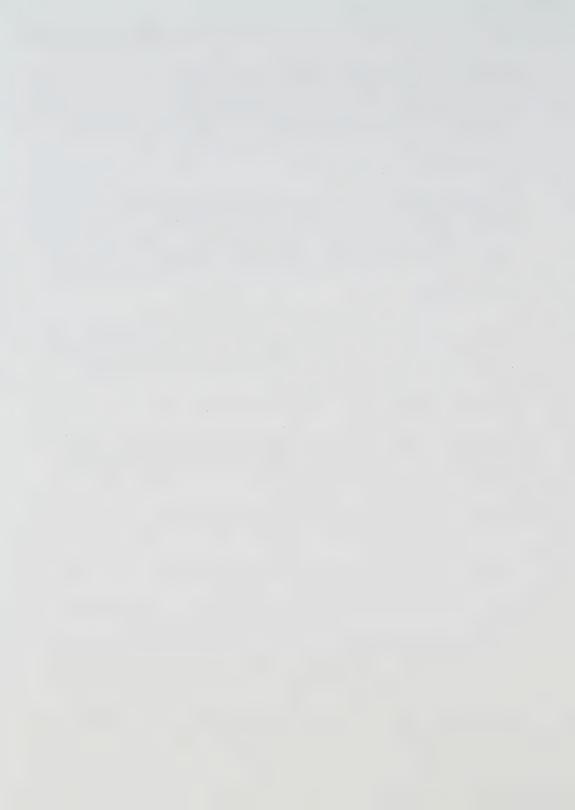
#### **Ontario Finances**

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to http://www.gov.on.ca/FIN/english/oecoeng.htm.

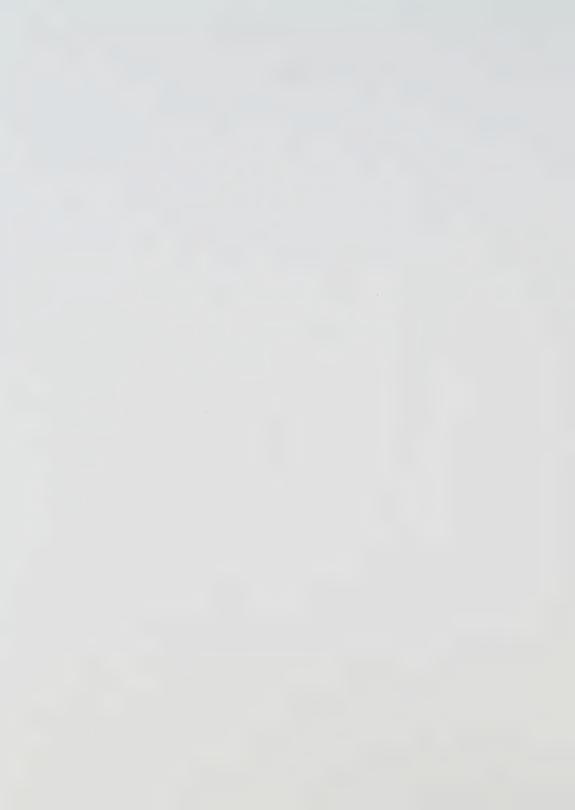
#### **Ontario Economic Accounts**

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to http://www.gov.on.ca/FIN/english/oecoeng.htm.

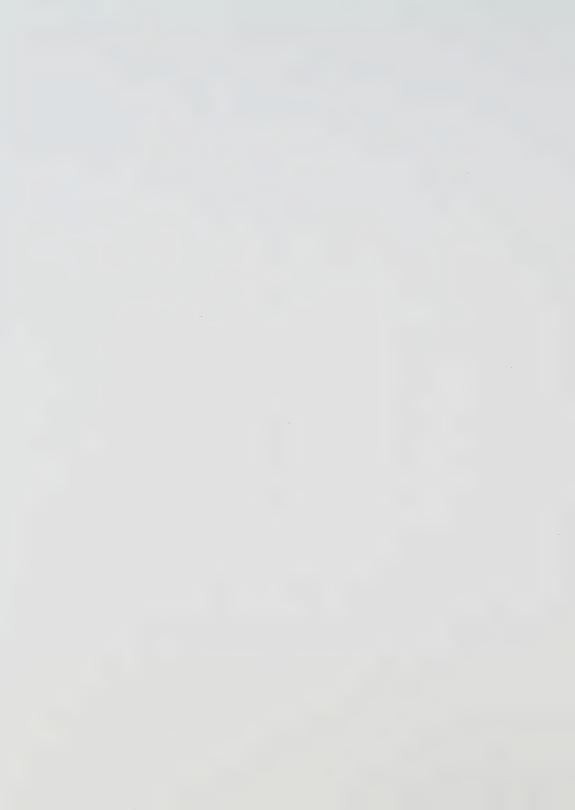
Copies of the above publications may be obtained free by mail from Publications Ontario Mail Order, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8; by calling (416) 326-5300, toll-free 1-800-668-9938; or by visiting the Publications Ontario Bookstore at 880 Bay Street, Toronto.



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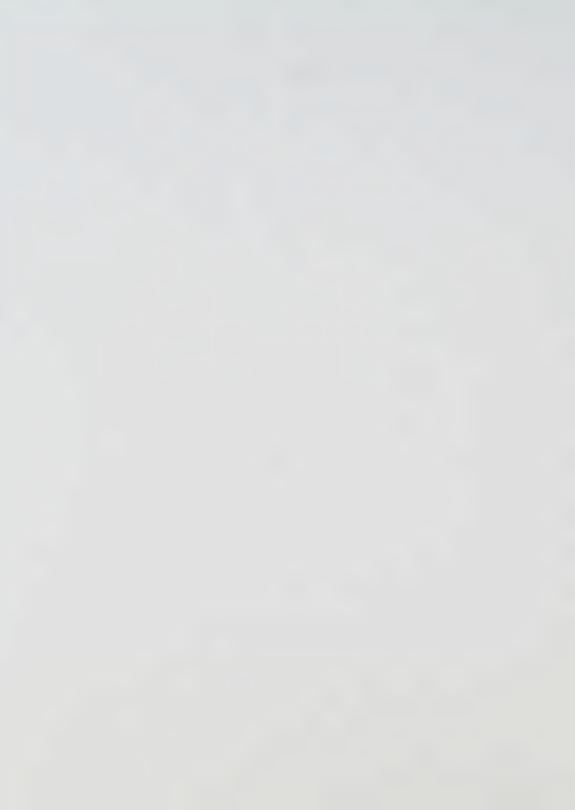


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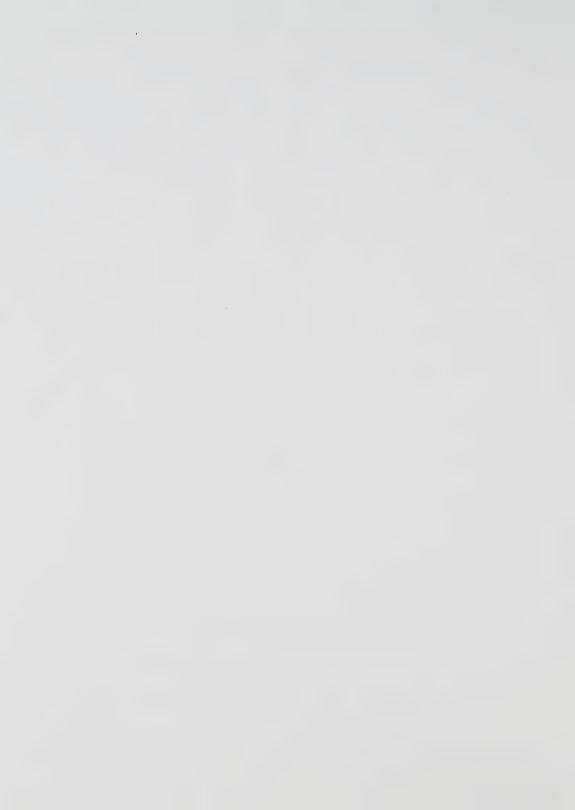
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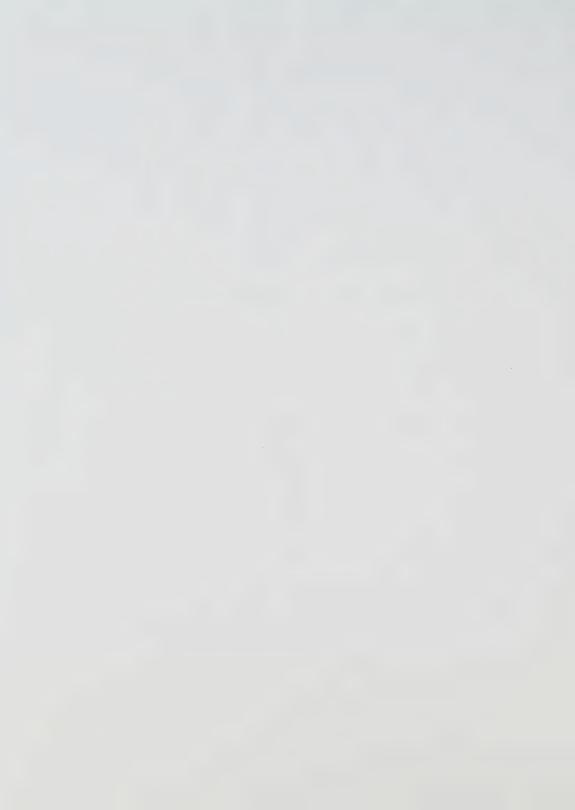
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## Notes

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Please address your comments on this report to:

The Honourable Ernie Eves, Q.C.

Minister of Finance
7" Floor

Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

You can also send your comments to the Minister by electronic mail at:
fincom@fin.gov.on.ca

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# Province of Ontario

**Annual Report** 

1999-2000





# **Ministry of Finance**

# Province of Ontario

**Annual Report** 

1999-2000



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# **Message From The Minister of Finance**



Hon. Ernie Eves

With a surplus of \$668 million for 1999–2000, the Provincial budget has been balanced one year ahead of schedule. The Balanced Budget Plan introduced in November 1995 specified declining annual deficit reduction targets, culminating in a balanced budget in 2000–01. Through prudent and realistic planning, 1999–2000 is the fifth year in a row in which the Government's deficit-reduction targets have been overachieved.

These are the benchmarks by which our Government measures Ontario's progress today and I am proud to record them in the 1999–2000 Public Accounts and Annual Report of the Province of Ontario.

The Ontario economy grew by 6.1 per cent in 1999, over 50 per cent more than private sector experts predicted, with Ontario leading the rest of Canada, the United States and all the industrialized countries in the G-7.

Consumer spending was up 4.2 per cent, boosted by ongoing Provincial income tax cuts, rising consumer confidence and more disposable personal income. Ontario's retail sales were up 7.3 per cent with 198,000 new jobs created during 1999. As of September 2000, 768,000 net new jobs have been created since September 1995.

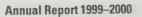
With more people working and more people spending, Provincial revenues surpassed our projections by an amazing \$5.8 billion. After investing in priority services such as health care and quality education and returning \$1 billion to taxpayers, Ontario had a \$668 million surplus to apply to reduce the Province's debt. Net Provincial Debt for 1999–2000 was \$113.7 billion, \$3.1 billion lower than it would have been under the 1999 Budget Plan, as a result of Ontario's robust economy.

In the 2000 Ontario Budget, the Ontario Government promised to more than double its \$2 billion Net Provincial Debt reduction pledge to at least \$5 billion during this mandate. The 1999–2000 surplus has been applied toward the \$5 billion commitment.

We will continue with our commitment to reducing taxes and letting taxpayers keep more of their hard-earned money so more people can enjoy Ontario's prosperity and the renewed spirit of optimism in our province.

The Honourable Ernie Eves, Q.C.

Minister of Finance November 2000



### The Year in Review

With a surplus of \$668 million for 1999–00, the Provincial budget has been balanced one year ahead of schedule. The Balanced Budget Plan introduced in November 1995 specified declining annual deficit reduction targets, culminating in a balanced budget in 2000–01. Through prudent and realistic planning, 1999–00 is the fifth year in a row in which the Government's deficit-reduction targets have been overachieved.

To help ensure Ontario's fiscal position remains secure, the Government introduced and the Legislature passed the *Taxpayer Protection and Balanced Budget Act, 1999,* in December of last year.

In the 2000 Ontario Budget, the Ontario Government promised to more than double its \$2 billion Net Provincial Debt reduction pledge to at least \$5 billion during this mandate. The 1999–00 surplus has been applied to meet this \$5 billion commitment.

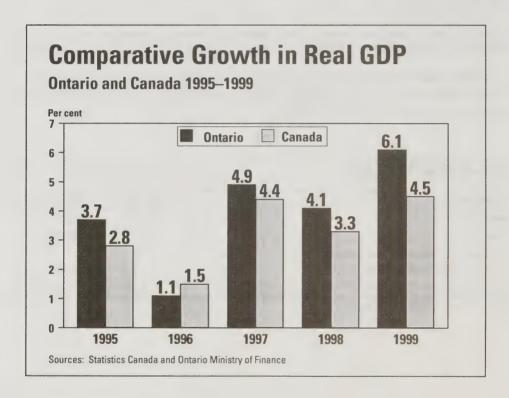
(\$ Millions)	1998–99	1999-00
(3 Millions)	1330-33	1333-00
Revenue	55,786	62,931
Expenditure	57,788	61,909
Net impact of Electricity Restructuring to be		
Recovered from Ratepayers		354
Surplus/(Deficit)	(2,002)	668

Source: Ontario Ministry of Finance

# **Economic Highlights**

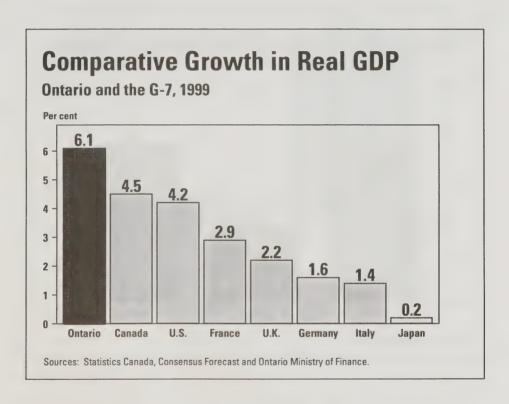
# Real Gross Domestic Product (GDP) Growth

For the calendar year 1999, the Ontario economy recorded strong economic growth, rising 6.1 per cent. Economic growth was broadly based with consumer spending, housing, business investment and exports all increasing strongly.



With solid domestic and foreign demand, business investment in machinery and equipment increased 14.1 per cent. Exports increased 11.3 per cent, with gains concentrated in automotive products and machinery and equipment. Consumer expenditure recorded another healthy advance in 1999, up 4.2 per cent.

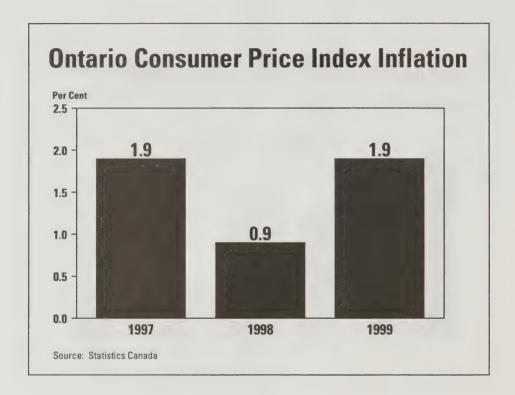
Ontario's economic performance surpassed that of the rest of Canada, the United States and all of the other G-7 major industrial countries.



#### **Consumer Price Index Inflation**

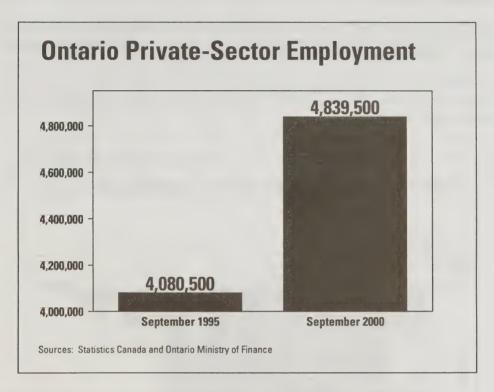
Ontario's inflation rate, as measured by the changes in the consumer price index (CPI), was 1.9 per cent in 1999, up one percentage point from 0.9 per cent in 1998.

The one percentage point rise in 1999 CPI inflation resulted mainly from the climb in energy prices.



#### **Employment**

Since the September 1995 Throne Speech, Ontario's private sector has created 759,000 net new jobs.



Total employment, including the public sector, has risen by 768,000 over the same period.

The largest gains in employment were in the manufacturing sector with 220,000 new jobs, followed by professional, scientific and technical services with 125,000 new jobs, and wholesale and retail trade with 109,000 new jobs.

During 1999, on an average annual basis, 198,000 net new jobs were created economy-wide.

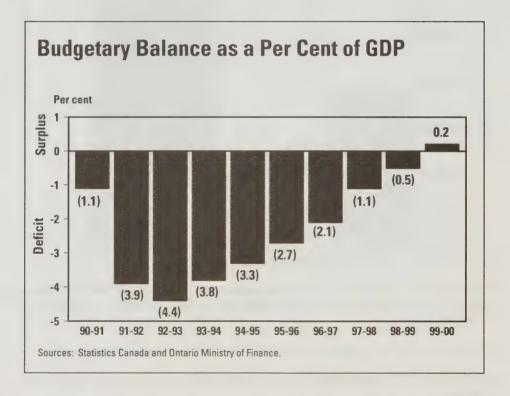
Since September 1995, the unemployment rate has fallen 2.6 percentage points from 8.4 per cent to 5.8 per cent.

#### **Fiscal Highlights Overview**

#### **Budgetary Balance**

The \$668 million surplus in 1999–2000 represents a \$2,670 million improvement in the fiscal balance from the 1998–99 deficit of \$2,002 million and a \$2,744 million improvement from the 1999 Budget deficit target for 1999-00 of \$2,076 million. The deficit has been completely eliminated.

The deficit as a share of the economy peaked at 4.4 per cent in 1992–93. With a Provincial surplus in 1999–00 at 0.2 per cent of GDP, and a legislated commitment to balanced budgets, the deficits of the past will not be repeated.

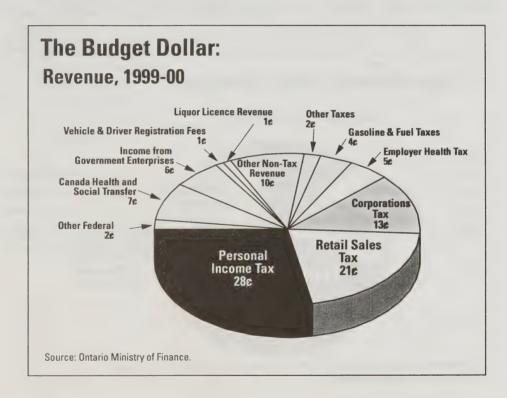


The \$500 million reserve included in the 1999 Budget to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook was not needed and was applied to deficit reduction and debt repayment.

#### Revenue

Total revenue was \$62,931 million in 1999-00, an increase of \$7,145 million from 1998-99 levels.

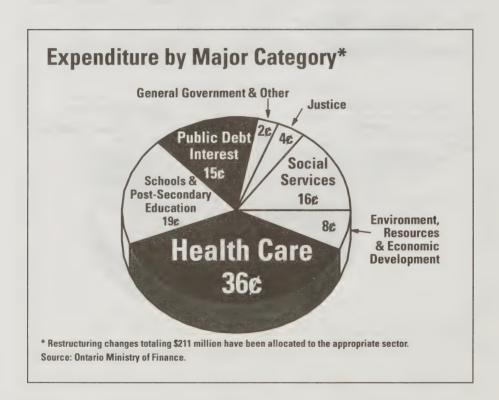
Ontario's tax cuts have fuelled robust growth in domestic demand and helped to increase the productive potential of the economy. Government revenues have increased substantially. Tax revenue in 1999–00 was \$2,804 million above 1998–99 levels. Other Revenue, Income from Government Enterprises and Federal Payments were all higher in 1999–00 than in 1998–99. Other Revenue includes the net proceeds from the sale of Highway 407.



#### **Expenditure Highlights**

Total expenditure in 1999–00 at \$61,909 million was \$4,121 million higher than the 1998–99 level of \$57,788 million. This increase is mainly due to one-time investments in health, education and infrastructure, increases in ongoing health care spending, and the expenditure impact of the first-time consolidation of the Independent Electricity Market Operator.

About 71 per cent of the total Provincial spending is related to social programs spending, including health, education and social services. Interest on Ontario's outstanding debt accounted for another 15 per cent of expenditure. Environment, resources and economic development, justice and general Government expenditure accounted for the remaining 14 per cent.



#### 1999-00 REVENUE PERFORMANCE

Total revenue in 1999–00 was \$4,781 million above the level projected in the 1999 Budget. Most of the increase was a result of the vigorous pace of economic growth, which boosted tax revenues \$3,296 million above forecast. Tax revenue in 1999–00 is reported net of the taxpayer dividend of \$1 billion. Other revenue sources including Federal Payments, Income from Government Enterprises and Other Revenue were also above projection.

Summary of In-Year Changes to Revenue in 1999–00 (\$ Millions)		
Taxation Revenue		
Personal Income Tax	1,947	
Retail Sales Tax	769	
Corporations Tax	275	
Employer Health Tax	128	
All Other	177	
		3,296
Federal Payments		329
Income from Government Enterprises		461
Other Revenue		695
Total In-Year Revenue Changes		4,781

Source: Ontario Ministry of Finance

#### **Summary of In-Year Changes to Expenditure**

Total provincial government expenditure was \$2,183 million above the 1999 Budget Plan mainly due to strategic, one-time, in-year increases in health, education, and infrastructure spending, as well as the expenditure impact of the first-time consolidation of the Independent Electricity Market Operator.

#### Major Sources of Change in Spending from the 1999 Ontario Budget Plan

- Through SuperBuild, unconditional grants of \$1,004 million were provided to hospitals to help
  accelerate Health Services Restructuring Commission (HSRC) directed capital projects. By
  providing its 70 per cent share for these projects up front, the Province has ensured that
  hospitals will be better positioned to accelerate restructuring in the health care sector.
- An additional \$500 million endowment to the Ontario Innovation Trust provided added resources to Ontario research institutions for research infrastructure, including laboratories and equipment, while helping them to attract other public and private-sector contributions.
   The initial endowment in 1998-99 was \$250 million.
- A \$459 million increase in expenditure resulting from the first-time consolidation of the
  Independent Electricity Market Operator (IMO) as a government service organization. These
  expenditures are offset by a miscellaneous revenue increase of \$312 million. The difference
  of \$147 million relates to the IMO's opening capital assets and in-year capital acquisitions
  which, under the Province's accounting policies, are expensed on consolidation.
- An additional \$383 million was provided in-year to hospitals including \$208 million to improve
  access to front-line patient care services and \$175 million primarily for transitional health care
  restructuring.
- A one-time grant of \$268 million was provided in-year to school boards in order to complete
  the phase-in funding component of the School Board Operating Grant. This will facilitate the
  move to fair funding and enable affected school boards to proceed with restructuring
  projects.
- Teachers' Pension Plan expenditure fell in-year by \$278 million, mainly due to a higher-thanexpected investment return on pension fund assets and increased interest revenue on a higher-than-expected pension plan surplus.
- In year Public Debt Interest (PDI) savings of \$321 million is attributable mainly to a smaller financing program, coupled with higher interest earnings on the Province's liquid reserve portfolio.

#### **Borrowing and Debt Management**

#### 1999-00 Borrowing Program

In 1999-00, the Province's total requirements to finance cash needs, maturing debt and debt buybacks were \$10.4 billion.

Total requirements were financed through an increase in short-term borrowing of \$0.6 billion, long-term borrowing of \$9.5 billion (\$0.9 billion of which was from the Canada Pension Plan) and \$0.3 billion through an increase in deposits with the Province of Ontario Savings Office (POSO).

The Canadian dollar market remained Ontario's primary source of funds. Of the \$9.5 billion in long-term borrowing, \$8.8 billion was borrowed from the Canadian dollar market and \$0.7 billion from the Japanese yen market. Ontario residents invested over \$2.0 billion in the fifth Ontario Savings Bond campaign.

#### **Debt Management**

The Ontario Financing Authority (OFA) manages debt on behalf of the Province and the Ontario Electricity Financial Corporation (OEFC).

Prudent debt management is vital to the Government's overall debt reduction efforts. Several key principles guide the Province's debt management activities, including managing debt with a view toward ensuring cost-effectiveness and stability, maintaining a smooth maturity profile through term selection and limiting Ontario's exposure to currency and interest rate fluctuations.

The debt managed on behalf of the Province, which stood at \$118.7 billion on March 31, 2000, comprises Debt Issued for Provincial Purposes, Debt Issued for Investment in the Electricity Sector, and deposits with the Province of Ontario Savings Office and Other Liabilities. Nearly one-third of this amount (32.5 per cent) is held as non-marketable or non-public debentures by Ontario's public-sector pension funds, the Canada Pension Plan Investment Fund and the Canada Mortgage and Housing Corporation.

For more details on risk management and derivative financial instruments, please refer to Note 3 in the Financial Statements, 1999–2000 Public Accounts of Ontario and the Financial Statements of the OEFC detailed in Volume 2 of the Public Accounts of Ontario.

#### **Electricity Industry Restructuring**

In November 1998, the Province enacted *The Energy Competition Act, 1998*, the statutory framework for the restructuring of the Ontario electricity industry. With legislation in place, the government moved one step closer to meeting its promise to eliminate the monopoly on electricity generation and distribution in Ontario with the introduction of competition to the electricity sector.

In moving forward with this agenda, the Province has been guided by the overriding principles of:

- Keeping electricity prices in Ontario as low as possible;
- Placing the new commercial companies on a sound financial footing with solid investment grade capital structures and credit ratings so that they can operate and compete in the new environment;
- Recovering any stranded debt identified as a result of the restructuring from the electricity sector, and not from taxpayers;
- Maintaining maximum value in the electricity sector until stranded debt is retired or defeased;
   and
- Creating a structure where investments are undertaken on a sound commercial basis.

On April 1, 1999, the Government's plan was put into effect: Ontario Hydro continued as the Ontario Electricity Financial Corporation (OEFC), responsible for managing and retiring the outstanding debt and certain other liabilities of the former Ontario Hydro not transferred to other successor companies; and two new commercial companies, Ontario Power Generation Inc. (OPG), an electricity generation company, and Hydro One Inc. (HOI), a regulated electricity transmission and distribution company were created. (See Note 1 to the Financial Statements, 1999–2000 Public Accounts of Ontario for more information.)

To effect this transfer, on April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro were transferred to OPG, HOI (and their subsidiaries) and IMO for \$8.5 billion, \$8.6 billion, and \$0.1 billion respectively, in exchange for debt payable to the OEFC. In order for OPG and HOI to have capital structures competitive with those of other industry participants, the two companies entered into a debt-for-equity swap with the Province. In exchange for \$3.8 billion in equity (\$3.4 billion common, \$323 million cumulative preferred) in HOI and \$5.1 billion of common equity in OPG, the Province assumed \$8.9 billion of the debt issued by the two corporations to the OEFC.

#### **Ontario Electricity Financial Corporation**

The OEFC commenced operations on April 1, 1999, inheriting approximately \$38.1 billion in total liabilities from the former Ontario Hydro. Its mandate is to provide the risk management, cash management and other services required to manage and retire this outstanding debt and other obligations of the Corporation in an orderly and cost effective manner. On a temporary basis, the OEFC is also responsible for the administration of the pension assets of the former Ontario Hydro until they can be allocated among the pension plans of the successor companies.

Pursuant to the *Electricity Act, 1998*, (the Act) and consistent with the principles of electricity restructuring, the government has a long-term plan in place to retire this debt from the electricity sector.

The OEFC obligations of \$38.1 billion will be repaid by cash flows from the following sources:

- Notes receivable from the Province of \$8.9 billion, OPG of \$3.4 billion, HOI of \$4.8 billion and IMO of \$0.1 billion for a total of \$17.2 billion;
- Payments-in-lieu (PILs) of corporate income, property and capital taxes made by Hydro One Inc., Ontario Power Generation Inc. and municipal electric utilities (MEUs). Under the Act, these revenue streams, dedicated to the OEFC, will not form part of the Consolidated Revenue Fund of the Province and will not be available to the taxpayer. All of these payments except for those income tax pils from the MEUs, commenced April 1, 1999. Those payments from the MEUs will commence when the market opens to competition in 2001;
- A Debt Retirement Charge (DRC), to be paid by ratepayers based on the consumption of
  electricity. The DRC will begin to be collected when the market opens to competition,
  currently scheduled for 2001. Commencing April 1, 1999 until open access, the OEFC is party
  to a revenue allocation agreement among the successor entities to Ontario Hydro, where it is
  entitled to the residual amount in the revenue pool after costs of OPG, HOI and IMO are paid.
  This is received by the OEFC and is reflected as a proxy DRC; and
- Provision for the Electricity Sector Consistent with the Government's commitment to keep
  electricity income in the electricity sector, net income of OPG and HOI in excess of the
  Province's cost of investment in its electricity subsidiaries will be set aside for the retirement
  of OEFC's debt. The cost of the Province's investment amounts to approximately \$520 million
  annually.

#### **Independent Assurance of the OEFC Dedicated Revenue Streams**

In his 1999 Annual Report, the Provincial Auditor requested independent assurance annually of the future estimated value of the dedicated revenue streams to the OEFC.

To comply with this request, the Government, in consultation with the Provincial Auditor, hired an independent accounting firm to review the assumptions and consistency of the OEFC debt recovery plan. Based on the conservative estimates and assumptions used in the preparation of the OEFC debt recovery plan, and the work performed by the independent accounting firm noted above, the Province anticipates that OEFC's obligations will be defeased in the years ranging from 2010 to 2017.

#### **Public Response**

The credit rating agencies provided favourable reviews in 1999 in assessing the impact of the electricity industry restructuring on the Province's fiscal outlook. The Dominion Bond Rating Service Limited (DBRS) stated,

"The new electricity industry structure, combined with the use of a Debt Retirement Charge, will allow for the recovery of all 'stranded debt' from the electricity ratepayer, without requiring access to the provincial taxpayer."

"DBRS believes that the stranded debt of the former Ontario Hydro can be fully retired without access to the Ontario taxpayer, and therefore is not including the OH stranded debt in its calculation of tax supported debt."

Similarly, Moody's stated in its 1999 report on Ontario:

"The utility's ability to service its debt through its own revenue, without calling on provincial support, has long been a positive attribute of the province's debt profile. The Energy Competition Act left unaltered the guiding principle of not calling on provincial support to service Ontario Hydro debt...."

#### **Accounting Treatment for OEFC**

#### Given that:

- a legislated structure has been put in place to ensure that the OEFC's revenues are derived strictly from the electricity sector and not the taxpayer;
- these revenues can only be used to service and retire OEFC debt and liabilities;
- under the Act, the dedicated revenue sources to the OEFC continue until debt is defeased, at which point, a decision to dissolve the OEFC may be made;

the financial statements of the Province have reflected the impact of the electricity restructuring as a \$354 million charge to be recovered from ratepayers. The stranded debt from electricity restructuring to be recovered from ratepayers of \$19,787 million is shown after net provincial debt. This disclosure recognizes the fact that ratepayers, not taxpayers, are responsible for the stranded debt of the former Ontario Hydro.

See Volume 2 for the Financial Statements of the OEFC.

(\$ Millions)	1995-96	1996-97	1997-98	1998-99	1999-00
Revenue	49,473	49,450	52,518	55,786	62,931
Expenditure	,	.,	,		,
Programs and Capital	48,944	45,568	46,160	48,696	52,201
Interest on Provincial Purpose Debt Interest on Investment in	8,475	8,607	8,729	9,016	8,977
Electricity Sector					520
Restructuring	854	2,180	1,595	76	211
Total Expenditure	58,273	56,355	56,484	57,788	61,909
Net impact of Electricity Restructuring to be Recovered from Ratepayers					354
Surplus/ (Deficit)	(8,800)	(6,905)	(3,966)	(2,002)	668
Ontario's Debt					
Debt Issued for Provincial Purposes	98,486	98,392	101,982	105,133	106,137
Debt Issued for Investment in Electricity Sector					8,88
Province of Ontario Savings Office	2,220	2,135	2,245	2,517	2,812
Other Liabilities*	19,548	20,938	21,995	19,237	19,403
Total Liabilities for Provincial Purposes	120,254	121,465	126,222	126,887	137,237
Financial Assets	(18,390)	(12,696)	(13,487)	(12,150)	(23,522
Net Provincial Debt	101,864	108,769	112,735	114,737	113,71
Debt Guaranteed by the Province					
OEFC	29,077	29,027	27,772	26,238	21,691
Other	2,513	2,759	2,903	2,913	3,230
Gross Domestic Product (GDP)					
at Market Prices	327,246	335,843	357,300	372,630	396,77!
Personal Income Per Capita (Dollars)	24,748	24,889	25,718	26,676	27,590
Net Provincial Debt as a Per Cent of GI	OP 31.1	32.4	31.6	30.8	28.7

<sup>\*</sup> Other Liabilities include Accounts Payable and Accrued Liabilities and Pensions.

# Condensed Financial Statements

# Statement of Responsibility for the Condensed Financial Statements

The condensed financial statements are extracted from the audited financial statements of the province. These statements are in compliance with legislation and use accounting principles as recommended by the Public Sector Accounting Board (PSAB) and, where applicable, the Canadian Institute of Chartered Accountants (CICA) Handbook for private and public sector corporations in Canada. The government accepts responsibility for the objectivity and integrity of the financial statements.

The government is also responsible for maintaining systems of financial management and internal control to ensure, with reasonable certainty, that the transactions recorded in the financial statements are within statutory authority, assets are properly safeguarded, and financial records are reliable in preparation of these financial statements.

Dr. Robert Christie Deputy Minister

October 16, 2000

Gabriel F. Sékaly

Assistant Deputy Minister October 16, 2000

Robert Siddall, CA Provincial Controller

October 16, 2000



# Opinion of the Provincial Auditor on the Condensed Financial Statements of the Province Of Ontario

#### To the Minister of Finance:

I have audited, in accordance with generally accepted auditing standards, the statement of financial position of the Province of Ontario as at March 31, 2000 and the statements of revenue, expenditure and net debt and of cash flows for the year then ended. In my Auditor's Report to the Legislative Assembly dated August 9, 2000, I expressed an unqualified opinion on those financial statements. My audit report and the complete financial statements are included in the 1999-2000 Public Accounts of Ontario.

In my opinion, the accompanying condensed statements of financial position, of revenue, expenditure and net debt and of cash flows have been accurately extracted from the aforementioned audited financial statements of the province.

The condensed financial statements provide only a brief summary of the significant accounting policies followed by the province and do not include the notes and schedules that accompany the complete financial statements. Accordingly, these condensed financial statements do not include all the disclosures required by accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. Therefore, readers are cautioned that these statements may not be appropriate for their purposes. For more extensive information on the province's financial position, results of operations and cash flows, reference should be made to the complete financial statements included in the 1999-2000 Public Accounts of Ontario.

Toronto, Ontario August 9, 2000 Erik Peters, FCA Provincial Auditor

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#### **Province of Ontario**

# **Statement of Revenue, Expenditure and Net Debt**

For the year ended March 31	Budget <sup>1</sup>	Actual	Actual
(\$ Millions)	2000	2000	1999
Revenue			
Personal Income Tax	15,670	17,617	17,190
Retail Sales Tax	12,110	12,879	11,651
Corporations Tax	7,820	8,095	7,447
Employer Health Tax	2,990	3,118	2,882
Gasoline and Fuel Taxes	2,750	2,819	2,660
Other Taxes	1,245	1,353	1,247
Total Taxation	42,585	45,881	43,077
Government of Canada	5,556	5,885	4,515
Income from Investment in Government Business Enterprises	3,247	3,708	2,547
Other Revenue	6,762	7,457	5,647
	58,150	62,931	55,786
Expenditure			
Health	20,677	21,963	19,694
Education and Training	11,908	11,984	11,297
Social Services	9,473	9,482	9,569
Interest on Provincial Purpose Debt	9,298	8,977	9,016
Interest on Investment in Electricity Sector	520	520	
Environment, Resources and Economic Development	3,845	5,093	4,083
Justice	2,144	2,304	2,096
General Government	1,861	992	1,957
Provision for Electricity Sector		383	
Restructuring Charges		211	76
	59,726	61,909	57,788
Reserve	500		
Net impact of Electricity Restructuring to be			
Recovered from Ratepayers		354	
Surplus (Deficit)	(2,076)	668	(2,002)
Balance, Beginning of Year			
Net Provincial Debt		114,737	112,735
Stranded Debt from Electricity Restructuring to beRecovered fro	m Ratepayer	s <b>19,433</b>	
		134,170	112,735
Balance, End of Year			
Net Provincial Debt		113,715	114,737
Stranded Debt from Electricity Restructuring to beRecovered from	Ratepayers	19,787	
Net Provincial Debt and Stranded Debt from			
Electricity Restructuring to be Recovered from Ratepayers		133,502	114,737

Fiscal plan for the year ended March 31, 2000 per 1999 Ontario Budget.

#### **Province of Ontario**

### **Statement of Financial Position**

As at March 31, 2000		
(\$ Millions)	2000	1999
Liabilities		
Accounts Payable and Accrued Liabilities	13,333	11,759
Debt Issued for Provincial Purposes	106,137	105,133
Debt Issued for Investment in Electricity Sector	8,885	
Deposits with the Province of Ontario Savings Office	2,812	2,517
Pensions	4,846	6,428
Provision for Electricity Sector	383	
Other Liabilities	841	1,050
	137,237	126,887
Cash and Temporary Investments	6,882	
Cash and Temporary Investments	6,882	2,780
Accounts Receivable	3,480	3,593
Other Loans Receivable	633	3,300
Other Assets	409	467
Properties Held for Sale	210	237
Investment in Government Business Enterprises	11,908	1,773
	23,522	12,150
Net Provincial Debt	113,715	114,737
Stranded Debt from Electricity Restructuring to be Recovered from Ratepayers	19,787	
Net Provincial Debt and Stranded Debt from		
Electricity Restructuring to be Recovered from Ratepayers	133,502	114,737

#### **Province of Ontario**

# **Statement of Cash Flows**

For the year ended March 31		
(\$ Millions)	2000	1999
Cash Flows used in Operating Activities		
Surplus (Deficit) for the Year	668	(2,002)
Adjustments for:		
Income from Investment in Government Business Enterprises	(3,708)	(2,547)
Remittances from Government Business Enterprises	2,456	2,247
Other Items	3,387	(3,755)
Cash flows used in operating activities	2,803	(6,057)
Cash Flows from Financing Activities		
Cash Flows from Financing Activities  Debt Issued for Provincial Purposes	10,145	10,290
•	10,145 (9,141)	•
Debt Issued for Provincial Purposes		•
Debt Issued for Provincial Purposes  Debt Retired for Provincial Purposes	(9,141)	(7,139)
Debt Issued for Provincial Purposes  Debt Retired for Provincial Purposes  Debt Issued for Investment in Electricity Sector	(9,141) 8,885	10,290 (7,139) 272 3,423
Debt Issued for Provincial Purposes  Debt Retired for Provincial Purposes  Debt Issued for Investment in Electricity Sector  Increase in Deposits with the Province of Ontario Savings Office	(9,141) 8,885 295	(7,139) 272 3,423
Debt Issued for Provincial Purposes  Debt Retired for Provincial Purposes  Debt Issued for Investment in Electricity Sector  Increase in Deposits with the Province of Ontario Savings Office  Cash flows from financing activities	(9,141) 8,885 295	(7,139) 272

#### **Condensed Significant Accounting Policies**

#### Introduction

These notes provide a brief summary of the accounting policies followed by the Province relating to the Condensed Financial Statements. For more detailed notes on these accounting policies and for more extensive information on the financial position and on revenue, expenditure and net debt of the Province, refer to the audited financial statements included in the 1999–00 Public Accounts of Ontario.

The financial statements of the Province reflect accrual and consolidation accounting as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the CICA Handbook for private and public sector corporations in Canada. The Province's investments in physical assets are recognized as expenditures when the assets are acquired.

#### **Reporting Entity**

These financial statements report the activities of the Consolidated Revenue Fund combined with those organizations which are accountable for the administration of their financial affairs and resources, either to a minister of the government or directly to the Legislature, and which are owned or controlled by the government. All of these organizations that meet one of the following criteria are separately consolidated: i) revenues, expenditures, assets or liabilities greater than \$50 million; or ii) outside sources of revenues, deficit or surplus greater than \$10 million. The activities of all other agencies are reflected in these financial statements through the accounts of the ministries responsible for them.

Trusts administered by the government on behalf of other parties are excluded from the reporting entity.

#### **Principles of Consolidation**

Government organizations, except for government business enterprises, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in these financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant inter-organization accounts and transactions.

Government enterprises are defined as those Crown corporations, boards and commissions which, (i) have the financial and operating authority to carry on a business, (ii) have as their principal activity and source of revenue the selling of goods and services to individuals and non-government organizations, and (iii) are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity. The activities of government enterprises are recorded in the financial statements using the modified equity method. Under this method,

government enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their combined net assets are included in the financial statements as Investment in Government Business Enterprises on the Statement of Financial Position and their combined net income is shown as a separate item on the Statement of Revenue, Expenditure and Net Debt.

#### **Measurement Uncertainty**

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty exists in these financial statements in the accrual of pension obligations, personal income tax, corporations tax and restructuring charges, including those arising from the restructuring of the Electricity Sector.

#### **Sources of Additional Information**

#### **Public Accounts of the Province of Ontario**

The 1999–00 Public Accounts of the Province of Ontario are made up of the financial statements and three volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The
  Consolidated Revenue Fund reflects the financial activities of the government's ministries on a
  modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards
  and commissions which are part of the government's reporting entity and other miscellaneous
  financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

#### The Ontario Budget

The Ontario Government presents a budget each year, usually in the early spring. This document outlines expected expenditure and revenue for the upcoming fiscal year. For electronic access to the Ontario Budget, go to http://www.gov.on.ca/FIN/english/budeng.htm.

#### The Estimates of the Province of Ontario

The government's spending estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry, which are submitted for approval to the Legislative Assembly in the *Supply Act*.

#### **Ontario Government Business Plans**

Business Plans are published annually by each ministry, following the Ontario Budget and publication of the spending Estimates. Each plan includes an annual report highlighting what each ministry has done over the previous year, what is planned for the coming year, what performance measures have been set and how results will be measured. It also includes a summary of expenditures. For electronic access to the Business Plans, go to http://www.gov.on.ca/MBS/english/press/plans2000/index.html.

#### **Ontario Finances**

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to http://www.gov.on.ca/FIN/english/oecoeng.htm.

#### **Ontario Economic Accounts**

This quarterly report contains data on the composition of Ontario's economic activity. Copies may be obtained free by writing directly to the Ministry of Finance, Communications Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to http://www.gov.on.ca/FIN/english/oecoeng.htm.

Copies of the above publications may be obtained free by mail from Publications Ontario Mail Order, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8; by calling (416) 326-5300, toll-free 1-800-668-9938; or by visiting the Publications Ontario Bookstore at 880 Bay Street, Toronto.



Please address your comments on this report to:

The Honourable Ernie Eves, Q.C.
Minister of Finance
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7 Queen's Park Crescent
Toronto, Ontario
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You can also send your comments to the Minister by electronic mail at: fincom@fin.gov.on.ca

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Ce document est publié en français et en anglais. On peut obtenir l'une ou l'autre de ces versions par la poste en écrivant au service des commandes postales de Publications Ontario, 50, rue Grosvenor, Toronto (Ontario) M7A 1N8 ou en téléphonant au (416) 326-5300 ou au 1 800 668-9938 (interurbains sans frais). On peut aller en chercher des exemplaires à la librairie de Publications Ontario, située au 880, rue Bay, Toronto. On peut aussi accèder au document par voie électronique en visitant le site Web du ministère des Finances à : www.gov.on.ca/FIN et en cliquant sur «Budget».









